



REGULAR BOARD MEETING

SEPTEMBER 12, 2017



# STOCKTON EAST WATER DISTRICT

PROVIDING SERVICE SINCE 1948  
www.sewd.net

## DIRECTORS

Richard Atkins  
Division 1

Andrew Watkins  
Division 2

Alvin Cortopassi  
Division 3

Melvin Panizza  
Vice President  
Division 4

Paul Sanguinetti  
Division 5

Loralee McGaughey  
Division 6

Thomas McGurk  
President  
Division 7

## STAFF

Scot A. Moody  
General Manager

Michael D. Johnson  
Assistant General Manager

## LEGAL COUNSEL

Jeanne M. Zolezzi  
General Counsel

Phone 209-948-0333  
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6767 East Main Street  
Stockton, CA 95215

Post Office Box 5157  
Stockton, CA 95205

## MEETING NOTICE

THE REGULAR MEETING OF THE BOARD OF DIRECTORS OF THE  
STOCKTON EAST WATER DISTRICT WILL BE HELD  
AT NOON, TUESDAY, SEPTEMBER 12, 2017 AT THE  
DISTRICT OFFICE, 6767 EAST MAIN STREET  
STOCKTON, CALIFORNIA 95215

**Assistance for the Disabled:** If you are disabled in any way and need accommodation to participate in the meeting, please contact Kristin Carido, Administrative Services Manager (209) 948-0333 at least 48-hours in advance for assistance so the necessary arrangements can be made.

Agendas and minutes are located on our website at [www.sewd.net](http://www.sewd.net).

## AGENDA

### Page No

- A. Pledge of Allegiance (Manager Moody) & Roll Call**
- B. Consent Calendar (None)**
- C. Public Comment (Non-Agenda Items)**
- D. Scheduled Presentations and Agenda Items**
  - 1. Minutes 09/05/17 Regular Meeting 01
  - 2. Warrants – California Public Employees' Retirement System 07
  - 3. JWT and Associates, LLP – Certified Public Accountants – Audited Financial Statements Presentation For Fiscal Year 2016/2017 09
  - 4. Business Consultant Agreements 10/01/17 – 03/31/18
    - a. Anthony Barkett 55
    - b. Doyce Boesch 57
  - 5. 2017 – 2018 Fall Winter Newsletter Draft
- E. Committee Reports**
  - 1. Delta Coalition Committee Meeting, 09/11/17 59
  - 2. Eastern Water Alliance (EWA) Meeting, 09/11/17 61
- F. Report of the General Manager**
  - 1. Water Supply Report as of 09/04/17 63

2. Information Items

a. Material Included, but Bound Separately from Agenda Packet:

1. Press Release: Updated Information Released On California Dams, California Department of Water Resources, 09/01/17
2. DWR Adopts State Flood Plan Update, AgAlert, 09/06/17
3. Harvey A Sober Reminder For Stockton, The Stockton Record, 09/02/17
4. SB 623 Becomes Tow-Year Bill, Returns To Assembly Rules Committee, ACWA News, 09/01/17
5. California Lawmakers Pass Bill On Storm Water Fees, Associated Press, 08/31/17

3. Report on General Manager Activities

**G. Director Reports**

1. Greater Stockton Chamber of Commerce Monthly Mixer – Never Boring Associates & Warden’s Office, 09/07/17 65

**H. Communications**

1. Central Valley Flood Protection Board – Mormon Slough Irrigation Dams – Bellota Dam, Permits #5597-A, Sent 09/07/17 67

**I. Agenda Planning/Upcoming Events**

1. Eastern San Joaquin Groundwater Authority Joint Exercise of Powers Authority Meeting, 10:15 a.m., 09/13/17
2. Greater Stockton Chamber of Commerce – 53<sup>rd</sup> Annual Industrial Technology Barbeque, 5:00 p.m., 09/13/17
3. ACWA Federal Affairs Committee Meeting, 10:00 a.m., 09/14/17

**J. Report of the Counsel**

1. Closed Session - Potential Litigation  
Government Code 54956.9 (c) – one case
2. Closed Session - Personnel  
Government Code 54957

**K. Adjournment**

**Certification of Posting**

I hereby certify that on September 7, 2017 I posted a copy of the foregoing agenda in the outside display case at the District Office, 6767 East Main Street, Stockton, California, said time being at least 72 hours in advance of the meeting of the Board of Directors of the Stockton East Water District (Government Code Section 54954.2).

Executed at Stockton, California on September 7, 2017.



Kristin Carido, Administrative Services Manager  
Stockton East Water District

Any materials related to items on this agenda distributed to the Board of Directors of Stockton East Water District less than 72 hours before the public meeting are available for public inspection at the District's office located at the following address: 6767 East Main Street, Stockton, CA 95215. Upon request, these materials may be available in an alternative format to persons with disabilities.

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THE REGULAR MEETING OF THE BOARD OF DIRECTORS  
OF STOCKTON EAST WATER DISTRICT WAS HELD AT THE DISTRICT OFFICE  
6767 EAST MAIN STREET, STOCKTON, CA  
ON TUESDAY, SEPTEMBER 5, 2017 AT 12:00 NOON

**A. PLEDGE OF ALLEGIANCE AND ROLL CALL**

President McGurk called the regular meeting to order at 12:23 p.m., and led the Pledge of Allegiance.

Present at roll call were Directors Atkins, Cortopassi, McGaughey, McGurk, Panizza, Sanguinetti and Watkins. Also present were Manager Moody, Assistant Manager Johnson, Finance Director Vega, District Engineer Lee, Administrative Services Manager Carido, Administrative Clerk Curtis, Legal Counsel Zolezzi and Consultant Barkett.

**B. CONSENT CALENDAR (None)**

**C. PUBLIC COMMENT (None)**

**D. SCHEDULED PRESENTATIONS AND AGENDA ITEMS**

1. Minutes 08/29/17 Regular Meeting

A motion was moved and seconded to approve the August 29, 2017 Regular Meeting Minutes, as presented.

Roll Call:

Ayes: Atkins, Cortopassi, McGaughey, McGurk, Panizza, Sanguinetti, Watkins  
Nays: None  
Abstain: None  
Absent: None

2. Warrants

- a. Fund 67 – Agricultural Fund
- b. Fund 68 – Municipal & Industrial Groundwater Fund
- c. Fund 70 – Administration Fund
- d. Fund 71 – Water Supply Fund
- e. Fund 91 – Vehicle Fund
- f. Fund 94 – Municipal & Industrial Fund
- g. Summary
- h. Short Names/Acronym List
- i. SEWD Vehicles & Heavy Equipment

Director Atkins inquired on the expense on page 17, line item 14 for Frank A. Olsen Co. for replacement valve for V-67 sludge lagoon #3 in the amount of \$2,931.14. Assistant Manager Johnson replied the SED basins sludge is pumped into the sludge lagoons through these valves, which have not been replaced in a number of years. Director Watkins inquired if staff installed the valve in-house. Assistant Manager Johnson replied yes. Director Watkins inquired on the size of the valve. Finance Director Vega replied it is a 12-inch cast iron valve.

Director Atkins inquired on the expenses on page 11, line items 17 & 18 for San Joaquin Valley Air Pollution Control District for Air Pollution Control Permit to Operate 10/01/17-03/31/18 and

04/01/18-09/30/18 in the amount of \$2,191.50 each. Manager Moody replied it is the cost for diesel for the generators. Whether used or not, it is the minimum annual amount.

A motion was moved and seconded to approve the August 29, 2017 Warrants, as presented.

Roll Call:

Ayes: Atkins, Cortopassi, McGaughey, McGurk, Panizza, Sanguinetti, Watkins  
Nays: None  
Abstain: None  
Absent: None

3. February 6, 2017 Claim for Damage or Injury (Mimms) – 9790 N. Alpine Road, Received by the District 08/11/17

Manager Moody provided the Board with correspondence for February 6, 2017 Claim for Damage or Injury (Mimms) – 9790 N. Alpine Road, Received by the District 08/11/17. Manager Moody reported at the August 29, 2017 Regular Board Meeting the Board decided to reject the claim. This letter is for Board consideration and approval.

A motion was moved and seconded to approve sending correspondence to (Mimms) for February 6, 2017 Claim for Damage or Injury, as presented.

Roll Call:

Ayes: Atkins, Cortopassi, McGaughey, McGurk, Panizza, Sanguinetti, Watkins  
Nays: None  
Abstain: None  
Absent: None

4. California Department of Fish & Wildlife Routine Maintenance Agreement – CEQA Consultant Contract & Scope of Work

Manager Moody provided the Board with information on California Environmental Quality Act (CEQA) Consultant Contract & Scope of Work for the California Department of Fish & Wildlife (CDFW) Routine Maintenance Agreement. Manager Moody reported in the past the District has filed Categorical Exemption, however, the CDFW has advised Categorical Exemption no longer applies.

Manager Moody reported the District was granted a 2-year extension and the first step would be hiring a CEQA Consultant for cultural resources for AB 52 tribal consultation and biological resources outlined in the Habitat Conservation Plan (HCP).

Director Watkins inquired if any work done for the HCP can be used for the Fish & Wildlife permit. Legal Counsel Zolezzi replied no, as the biological work being conducted by this consultant is not done instream and the HCP work was limited to instream only.

Manager Moody reported staff consulted with Legal Counsel Harrigfeld prior to looking at consultants to ensure we would be in line with the HCP.

A motion was moved and seconded to approve contract with Brewer Environmental in an amount not to exceed \$29,847, as presented.

Roll Call:

Ayes: Atkins, Cortopassi, McGaughey, McGurk, Panizza, Sanguinetti, Watkins

Nayes: None  
Abstain: None  
Absent: None

5. Central Valley Flood Protection Board – Mormon Slough Irrigation Dams Permits No. 5838, 7594, 8175 and Bellota Dam Permit No. 5597-A – Variance Request (to Delay Removal to 10/27/2017), 09/05/17

Manager Moody provided the Board with correspondence to the Central Valley Flood Protection Board (CVFPB) requesting a delay on the Mormon Slough dam removal schedule. District Engineer Lee reported the CVFPB requires the above referenced dams to be removed prior to October 10<sup>th</sup>. However, the current hot weather and extended growth season have caused a demand for an extended irrigation season. The District is requesting permission to delay the removal of the dams until October 27, 2017, weather permitting.

Director Watkins inquired if a delayed dam removal has been requested after October 27<sup>th</sup> before. Manager Moody replied not since he has been with the District. District Engineer Lee added this is one of the longer dam removal delays the requested by the District, so staff wanted Board approval before sending.

Director Atkins inquired what day the water will potentially be slowed down. District Engineer Lee replied staff is projecting slowing water down on Friday, October 13, 2017, which would allow staff to begin removing the dam at Bellota on Monday, October 16, 2017.

Director Atkins inquired if the slowdown will effect Mormon Slough or the Calaveras. District Engineer Lee replied both.

Manager Moody reported this information will be added to the semi-annual newsletter that will be brought to the Board for review.

Director Cortopassi reported irrigators may be harvesting through Mid-October and if it is dry, they may choose to irrigate. Manager Moody replied as the extension date draws nearer, staff can request an additional extension if necessary.

Assistant Manager Johnson recommended reversing the order of the last two sentences of the 3<sup>rd</sup> paragraph of the letter. The letter should read, “Storms sufficient to create an inflow of 20,000 acre-feet between today and October 27, 2017, are unlikely. In the event of such a storm(s), the District has the ability to remove this dam in a timely manner to assure no interference with any flood operations”.

There was consensus of the Board to move forward with sending correspondence to the Central Valley Flood Protection Board requesting approval to delay dam removal.

6. North Site Lot Merger – APN 101-050-02

Manager Moody provided the Board with information on the North Site Lot Merger. District Engineer Lee reported in the process of permitting for the District’s Solar Project, it was found that Parcel 101-050-02, eastern portion of the North Site, is divided into 14, 10-acre legal lots. For the Solar Project, lots 12, 13 and 14 need to be merged into a single lot.



District Engineer Lee reported the District has the option of merging just the three lots required for the Project or merging all 14 lots together. Legal Counsel Zolezzi recommended only merging the three necessary lots, as the District would still want to retain as many parcels as possible.

Director Watkins inquired if these 14 lots are the same that Richard Bozzano applied to separate. Legal Counsel Zolezzi replied yes.

Director Watkins inquired why the parcels need to be merged. District Engineer Lee replied that due to the conditions of the Project, the solar facilities must be on one parcel and the horizontal configuration requires three parcels. Director Watkins suggested doing a lot line adjustment.

Director Sanguinetti inquired if the District has a map of all the parcels. District Engineer Lee replied no, we do not have a legal recorded description.

Director Watkins suggested calling Dillon & Murphy Consulting Civil Engineers and advise the District would like to preserve as many parcels as possible and they can survey the land.

Director Atkins inquired if staff is positive the solar will be installed before moving forward with having the land surveyed. District Engineer Lee replied yes, staff spoke with PG&E last week and confirmed.

Consultant Barkett reported the District should try and preserve as many lots as possible, while not being over indulgent with information. Onyx will have a longer list of demands for the District to comply with if they think there is potential for people to reside on the remaining parcels.

Manager Moody reported staff will conduct more research and bring findings back to the Board.

## **E. COMMITTEE REPORTS**

### **1. ACWA Groundwater Committee Meeting, 08/31/17**

District Engineer Lee attended the August 31, 2017 ACWA Groundwater Committee Meeting. District Engineer Lee reported as of July 1, 2017, there are 293 Groundwater Sustainability Agencies (GSAs), which is ~99.9% coverage. There are 140 basins with GSAs as well and most of the overlapping issue has been resolved. The Department of Water Resources (DWR) will continue with Technical and Planning Assistance. District Engineer Lee reported the Water Available for Replenishment Report should be out by October. SB 623 is now a 2-year bill and ACWA is calling for participation for AB 1427 (Eggman). The State Water Resources Control Board spoke about what they have done with GSA regulations, which includes sending out ~190 letters to parcels not covered in the GSA. District Engineer Lee reported there was a water storage update provided and applications have been received for the water storage grant. Additionally, there are upcoming webinars regarding water storage. President McGurk inquired if the Water Available for Replenishment Report is contingent on AB 1427 (Eggman). District Engineer Lee replied no. Manager Moody added it is part of Sustainable Groundwater Management Act (SGMA). The next meeting is scheduled for November 28, 2017.

## **F. REPORT OF GENERAL MANAGER**

### **1. Water Supply Report as of 09/05/17**

Manager Moody provided a handout of the Water Supply Report for information only that included storage, release, and production data collected from various sources as of midnight last night.

There is 208,306 AF in storage at New Hogan Reservoir. Current releases are set at 186 cfs. There is 2,038,744 AF in storage at New Melones Reservoir. Current release at Goodwin Dam to Stanislaus River are set at 1,001 cfs and release to all water users are set at 2,207 cfs. The water treatment plant is currently processing 33 mgd. The City of Stockton is currently processing 24 mgd.

Director Cortopassi inquired if the projected remainder of water in New Hogan has changed. Manager Moody replied he recently spoke with Marcia Bond, United States Army Corps of Engineers and she indicated the Corps is willing to work with the District and asked that the District put together a proposal. Assistant Manager Johnson is working on this proposal. Historically, 15% is the maximum the Corps will provide to the District, however, staff is aiming for 20%. Manager Moody advised the proposal and all corresponding documents will be brought to the Board for consideration and approval prior to sending.

### **2. Information Items:**

Manager Moody noted items: F2a-1, F2a-2, F2a-3, F2a-4, F2a-5, F2a-6, F2a-7 and F2a-8.

### **3. Report on General Manager Activities**

Manager Moody advised he will be querying the Board at the next Regular Board Meeting to inquire who would like to attend the Greater Stockton Chamber of Commerce Industrial BBQ on Wednesday, September 13, 2017 to reserve tickets.

Manager Moody reported the Eastern Water Alliance Meeting is scheduled for Monday, September 11, 2017; however, staff has received no responses from outside entities as to whether or not they will be in attendance.

## **G. DIRECTOR REPORTS**

## **H. COMMUNICATIONS**

## **I. AGENDA PLANNING/UPCOMING EVENTS**

1. San Joaquin County Agricultural Drought Task Force Meeting, 9:00 a.m., 09/06/17
2. Greater Stockton Chamber of Commerce Monthly Mixer – Never Boring Associates & Warden’s Office, 5:15 p.m., 09/07/17
3. ACWA Region 3 & 4 Joint Program – California’s Headwaters: A Look At How Watersheds Are Connected, 10:00 a.m., 09/08/17
4. Delta Coalition Committee Meeting, 8:30 a.m., 09/11/17

5. San Joaquin County & Delta Water Quality Coalition Meeting, 9:00 a.m., 09/11/17  
*[This meeting has been cancelled]*
6. Eastern Water Alliance (EWA) Meeting, 12:00 Noon, 09/11/17

**J. REPORT OF THE COUNSEL**

1. Closed Session - Potential Litigation  
Government Code 54956.9 (c) – one case

President McGurk adjourned the meeting to closed session at 1:03 p.m. to discuss closed session agenda items. The regular meeting reconvened at 1:14 p.m., with no reportable action.

**J. ADJOURNMENT**

President McGurk adjourned the meeting at 1:15 p.m.

Respectfully submitted,

Scot A. Moody  
Secretary of the Board

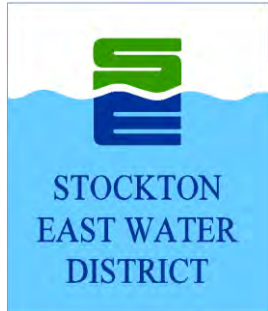
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**STOCKTON EAST WATER DISTRICT  
INVOICES FOR BOARD PACKAGE  
CALPERS SPECIAL CHECK REQUEST  
SEPTEMBER 12, 2017**

Vendor name	Distr	Account #	Description	Amount	Invoice No.
	Fund#				
1 CA Public Employees Retirement System (Calpers)	70	10-5049-0	Retirement Contribution Payroll 08/25/17-Admin.	4,510.78	08/25/17 1245106351
			<b>Total Fund 70 Admin</b>	<b>4,510.78</b>	
1 CA Public Employees Retirement System (Calpers)	71	10-5049-0	Retirement Contribution Payroll 08/25/17-WS-NM	2,910.42	08/25/17 1245106351
2 CA Public Employees Retirement System (Calpers)	71	10-5058-0	Retirement Contribution Payroll 08/25/17-WS-NH	975.35	08/25/17 1245106351
			<b>Total Fund 71 Water Supply</b>	<b>\$ 3,885.77</b>	
1 CA Public Employees Retirement System (Calpers)	94	10-5049-0	Retirement Contribution Payroll 08/25/17-M&O	11,791.94	08/25/17 1245106351
			<b>Total Fund 94 Municipal &amp; Industrial</b>	<b>\$ 11,791.94</b>	
<b>7</b>					
			<b>Grand Total for Special Check Request on RBM 09/12/17</b>	<b>\$ 20,188.49</b>	

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**STOCKTON EAST WATER DISTRICT**

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITOR'S REPORT

MARCH 31, 2017 AND 2016

DRAFT

## STOCKTON EAST WATER DISTRICT

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# JWT and Associates, LLP

## Certified Public Accountants

1111 East Herndon, Suite 211, Fresno, CA 93720

Voice: (559) 431-7708 Fax: (559) 431-7685

### Independent Auditors' Report

To the Board of Directors  
Stockton East Water District

We have audited the accompanying financial statements of the business-type activities of Stockton East Water District (the District), as of and for the years ended March 31, 2017 and 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



### **Basis for Qualified Opinion**

As more fully described in Note 1 to the financial statements, District management has not evaluated water assessments receivable from the City of Stockton included in other assets as of March 31, 2017 and 2016 for doubtful accounts. In our opinion, accounting principles generally accepted in the United States of America require that an allowance for doubtful accounts be provided based on historical experience and management's evaluation of outstanding receivables. The effects of this departure from accounting principles generally accepted in the United States of America on the accompanying financial statements of the business-type activities has not been determined.

### **Qualified Opinion**

In our opinion, except for the effects of the matters discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the business-type activities of Stockton East Water District, as of March 31, 2017 and 2016 and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplemental Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information 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 supplemental 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.

JWT & Associates, LLP  
Fresno, California  
August 31, 2017

# STOCKTON EAST WATER DISTRICT

## Management's Discussion and Analysis

March 31, 2017

The following is a narrative overview and analysis by the management of Stockton East Water District (the District) of the financial activities of the District for the fiscal year ended March 31, 2017. Readers should consider the information presented here in conjunction with the financial statements.

### Financial Highlights

- Total assets of the District were \$144,582,122 with capital assets (Utility Plant in Service) at \$86,887,078, net of accumulated depreciation. Current and other assets were \$42,273,497 and \$15,421,547, respectively.
- Total liabilities were \$100,711,404 consisting of long-term liabilities of \$76,663,489 and current liabilities of \$24,047,914.
- Assets of the District exceeded liabilities at the close of the most recent fiscal year by \$45,641,013 (net position). Of this amount, \$16,211,216 (unrestricted net position) may be used to meet the District's ongoing obligations and \$22,423,980 represents the District's net investment in capital assets.
- The District's net assets increased by \$7,057,922 from \$38,583,091 in FY 2016 to \$45,641,013 in FY 2017.
- Total operating revenues for the fiscal year 2016-2017 were \$26,250,688, which is an increase of 8.9% from the prior year. This change primarily reflects increased revenues from charges to the District's Urban Contractors (City of Stockton, California Water Service Company, Lincoln Village Maintenance District and Colonial Heights Maintenance District) through the contracted Base Monthly Payment (BMP), municipal and industrial customers through ground water rate equalization charges and groundwater assessments, , partially aided by increases in ground water assessments charged to agricultural customers and offset by surface water sales and.
- Total operating expenses for the fiscal year 2016-2017 were \$18,077,953. This figure is 15.4% more than the prior year, due primarily to an increase in sources of supply costs. Namely, because of the recent drought, the District received a 0% allocation for FY 2017 from the New Melones Reservoir, which is operated by the USBR. However, the District was able to secure purchased water from South San Joaquin Irrigation District, at a higher cost per acre foot than would potentially have been paid to the USBR for New Melones Water. Additionally, transmission and distribution and water treatment expenses increased in part due to higher maintenance and repair costs which were slightly offset by reduced general and administrative expenses. Operating profit was \$8,172,735.

# STOCKTON EAST WATER DISTRICT

## Management's Discussion and Analysis

March 31, 2017

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District is an independent special District formed by the California legislature and follows enterprise fund reporting. There are three main divisions to the District's operations: 1) the Municipal and Industrial (M&I) Division is primarily funded by base monthly payments from the Urban Contractors and ground water rate equalization charges from other municipal and industrial customers; 2) the Agricultural (Ag) Division derives its revenues from fees and assessments charged to agricultural irrigators within District boundaries; and 3) the Administration Division is non-revenue generating division that provides administrative support to the M&I and Ag divisions.

Accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. The District's basic financial statements are comprised of three components: 1) Statement of Net Position; 2) Statement of Revenues, Expenses and Changes in Net Position; and 3) Statement of Cash Flows. This report also contains other supplemental information in addition to the basic financial statements themselves.

The *Statement of Net Position* presents the current and long-term portions of assets and liabilities separately and may provide a useful indicator of whether the financial position of the District is improving or deteriorating over time. This statement includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the District's creditors (liabilities). It also provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

The *Statement of Revenues, Expenses and Changes in Net Position* presents information showing profitability and credit worthiness as well as how the District's net position changed during the most recent fiscal year. This statement shows revenues and expenses from operations, non-operating revenues and expenses, and capital contributions, and reconciles the change from one fiscal year to the next. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges.

The *Statement of Cash Flows* is prepared using the direct method and is concerned solely with input and outlay of cash from operating activities, noncapital financing activities, capital and related financing activities and investing activities. This statement also includes a reconciliation of operating profit (loss) to cash from operating activities. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the reporting period.

### Notes to the Basic Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

# STOCKTON EAST WATER DISTRICT

## Management's Discussion and Analysis

March 31, 2017

### Financial Analysis

#### Net Position

As noted earlier, net position may serve as a useful indicator of the District's financial position. As shown in Figure 1, the District's assets exceeded liabilities by \$45,641,013 on March 31, 2017, an increase of \$7,057,922 from the District's net assets at March 31, 2016.

By far the largest portion of the District's net assets reflects its net investment in capital assets (e.g., land, buildings, conveyance facilities, water treatment plant, pipelines and equipment), less related outstanding debt used to acquire those assets. The District uses these assets to provide water services to its customers; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from services to customers or other sources, since capital assets themselves cannot be used to liquidate these liabilities.

**Figure 1**

	<b>Net Position</b>			
	<u>3/31/2017</u>	<u>3/31/2016</u>	<u>Variance</u>	<u>%</u>
Current and other assets	\$ 57,695,044	\$ 146,605,055	\$ (88,910,011)	-61%
Capital assets	86,887,078	89,693,541	(2,806,463)	-3%
Total assets	144,582,122	236,298,596	(91,716,474)	-39%
Current liabilities	24,047,914	120,758,366	(96,710,452)	-80%
Long-term liabilities	76,663,489	76,992,380	(328,891)	0%
Total liabilities	100,711,405	197,750,746	(97,039,341)	-49%
Net investment in capital assets	22,423,980	17,805,370	4,618,610	26%
Restricted	7,005,817	6,804,156	201,661	3%
Unrestricted	16,211,216	13,973,565	2,237,651	16%
Total net position	<u>\$ 45,641,013</u>	<u>\$ 38,583,091</u>	\$ 7,057,922	18%

A portion of the District's net position (\$7,005,817) represents resources that are subject to external restrictions on how they may be used. These net positions consist of funds dedicated to specific purposes, e.g., urban contractors' directives, capital construction and dry year reserves. The remaining balance of the District's net assets is unrestricted and may be used to meet the District's ongoing obligations and creditors.

# STOCKTON EAST WATER DISTRICT

## Management's Discussion and Analysis

March 31, 2017

### *Change in Net Position*

As shown in Figure 2, the District's operating, non-operating activities and developer fees increased net assets by \$7,057,922 as compared to a \$3,718,876 decrease in net assets in the prior year. The District's increase in net position is due to the combined changes of the following major components:

- The District's FY 2017 operating profit of \$7,057,922 represents an increase of \$10,776,798 from FY 2016's operating loss of \$3,718,876.
- Non-operating expenses, net decreased \$6,653,761 to (\$2,828,473) in FY 2017 from (\$9,482,234) in FY 2016.

**Figure 2**

	<b>Changes in Net Position</b>			
	<u>3/31/2017</u>	<u>3/31/2016</u>	<u>Variance</u>	<u>%</u>
Operating revenues	\$ 26,250,688	\$ 24,114,303	\$ 2,136,385	9%
Operating expenses	18,077,954	15,660,708	2,417,246	15%
Operating profit	<u>8,172,734</u>	<u>8,453,595</u>	<u>(280,861)</u>	<u>-3%</u>
Non-op revenues (expenses)				
Property taxes	426,965	387,476	39,489	10%
Interest and other income	170,553	4,314,134	(4,143,581)	-96%
Net decrease in the fair value of	-	(3,892,008)	3,892,008	-100%
Interest expense	(3,425,991)	(10,291,836)	6,865,845	-67%
Total non-op revenues (exp)	<u>(2,828,473)</u>	<u>(9,482,234)</u>	<u>6,653,761</u>	<u>-70%</u>
Developer fees	1,713,661	1,324,117	389,544	29%
GASB 68 implementation	-	(4,014,354)	4,014,354	-100%
Change in net position	<u>7,057,922</u>	<u>(3,718,876)</u>	<u>\$ 10,776,798</u>	<u>-290%</u>
Total net position- beg of period	<u>38,583,091</u>	<u>42,301,967</u>		
Total net position- end of period	<u>\$ 45,641,013</u>	<u>\$ 38,583,091</u>		

**Operating Expenses.** Operating expenses increased 15.4% or \$2,147,246 due to increases in sources of supply of \$1,511,806, water treatment of \$692,101, and transmission and distribution of \$402,053 offset by a decrease in general and administrative and amortization/depreciation expenses of \$154,592 and \$34,125 respectively.

# STOCKTON EAST WATER DISTRICT

## Management's Discussion and Analysis

March 31, 2017

Operating Revenues. Operating revenues increased 8.9% or \$2,136,385 due mainly to increases in charges to the District's Urban Contractors through the contracted BMP and groundwater rate equalization charges to municipal and industrial customers, included in municipal and industrial water revenues, and ground water assessments. The Second Amended Contract between the District and the Urban Contractors calls for the Urban Contractors to make payments to the District in the amounts necessary to cover the District's cost of all municipal and industrial expenses, including costs related to sources of supply, transmission and distribution, water treatment plant operation and maintenance costs, debt payments on certificates of participation, installment purchase agreement and state revolving fund loan used for construction of the treatment plant and transmission system, and for the municipal and industrial share of conveyance and storage facilities, in addition to ground water rate equalization charges paid by other municipal and industrial customers.

Non-operating Revenues (Expenses). Total non-operating revenues (expenses) for FY 2017 decreased \$6,653,761 from (\$9,482,234) in FY 2016 to (\$2,828,473) in FY 2017. This was primarily due to decreases in interest expense and the fair value of investments further affected by a decrease in interest earned from investments. All of these items decreased as a result of the defeasance of the District's 1992B Series Certificates of Participation in April of 2016. Namely, interest expenses stopped accruing on these certificates, the fair value for indebtedness no longer had to be adjusted and investment funds were used pay off the majority of these Certificates of Participation, thus no longer earning investment interest income.

Developer Fees. During FY 2017, the District received \$1,713,661 in developer fees representing capital contributions compared to \$1,324,117 in FY 2016.

### *Budget Comparisons*

The following table compares actual operating revenues and expenses to the 2016-2017 budget:

	Budgeted 2016-2017	Actual 2016-2017	Variance
Operating Revenues	\$ 27,029,234	\$ 26,250,688	\$ (778,546)
Operating Expenses	21,423,221	18,077,954	(3,345,267)
Net Operating Income	\$ 5,606,013	\$ 8,172,734	\$ 2,566,721

For 2016-2017, operating revenues were \$778,546 lower than budgeted. The majority of this decrease (\$750,148) occurred as a result of decreased Water Equalization Revenues presumably caused by conservation spurred by the recent drought.

# STOCKTON EAST WATER DISTRICT

## Management's Discussion and Analysis

March 31, 2017

Highlights of the variances between actual and budgeted costs within operating expenses were as follows:

As the drought continued in the State of California, reservoir levels hit historical lows. Consequently, the District received 0% water allocation for the all four quarters of FY 2016-2017 from New Melones Reservoir which is operated by the United States Bureau of Reclamation.

The 0% allocation was partially offset by higher than budgeted costs per acre foot for water purchased from South San Joaquin Irrigation District which netted sources of supply costs \$1,511,806 lower than budgeted. As a result of lower than budgeted surface water availability, water treatment costs were \$2,684,093 under budget, and transmission and distribution costs were \$555,050 under budget. During the fiscal year the district also experienced significantly less usage of professional and technology services than anticipated which resulted in expenses which were \$1,932,779 below budget.

### **Capital Asset and Debt Administration**

#### *Capital Assets Activity*

The District's net investment, after depreciation, in capital assets as of March 31, 2017 amounted to \$86,887,078. The District's capital assets include all land, buildings, conveyance facilities, water treatment plant, pipelines and equipment owned by the District. The total decrease in the District's investment in capital assets for the current fiscal year was 3.1% or \$2,806,463. This represents minor capital additions of offset by \$3,082,343 of depreciation.

Additional information on the District's capital assets can be found within the audited financial statements.

#### *Long Term Debt Activity*

On March 31, 2017, the District had total outstanding certificates of participation and installment purchase agreement indebtedness of \$35,592,127. The District is scheduled to retire the remainder of the outstanding certificates of participation and installment purchase agreement as follows: \$20,005,000 (1997 & 2002A) in year 2023, \$4,719,390 (2005 Installment Purchase Agreement) in year 2026 and \$17,658,089 (2002B) in year 2030.

The District has issued certificates of participation and installment purchase agreements to finance capital improvements and to refinance existing certificates of participation. Certificates of participation sold to refinance existing debt are subject to threshold interest savings requirements of the State of California.

Note 7 in the Notes to the Financial Statements contains schedules showing the debt transactions for certificates of participation and the installment purchase agreement for the year, the status of the debt as of March 31, 2017, and schedules of future debt service requirements. In addition, further detailed information regarding debt maturities is contained in the Other Supplemental Information subsection.

# STOCKTON EAST WATER DISTRICT

## Management's Discussion and Analysis

March 31, 2017

The District entered into a funding agreement with the State of California Department of Public Health during FY 2013 to assist the District in financing the construction of a 10 million gallon finished water reservoir and repair of the District's existing finished water reservoir. The funding agreement consists of a \$15,000,000 revolving loan, equal to the total estimated construction cost and repairs. The revolving loan carries no interest and, upon completion of construction and repairs, will be amortized over a 20-year term.

Total outstanding indebtedness as of March 31, 2017 of \$10,601,321 related to the state revolving fund loan is included in the District's financial statements.

On July 15, 2014, the District entered into a \$3,325,000 note payable with the Bank of Stockton to provide financing relative to the purchase of real property adjacent to the District's treatment plant property, consisting of approximately 230 acres. Total outstanding indebtedness as of March 31, 2017 of \$2,961,967 related to the Bank of Stockton is included in the District's financial statements.

### **Future Financial Outlook**

The California Legislature imposed rate limitations for the District's Agricultural Division when it provided the District with additional powers in 1979. So, by design, the District has limited ability to raise revenues in its Agricultural Division. The Legislature can provide relief from this revenue limitation, but the District will likely need a formal justification report to make any request politically palatable. The Second Amended Contract between the District and its Urban Contractors establishes a base monthly payment by the Urban Contractors that, in addition to ground water rate equalization charges paid by other municipal and industrial customers, covers 100% of the cost of the Municipal Division-Treatment Plant.

The District's water treatment plant is currently rated by the California Department of Public Health (CDPH) to treat 65 million gallons of water per day (mgd). On May 18, 2012, the District entered into an agreement to receive funding through the CDPH's State Revolving Fund Loan Program in the amount of \$15 million for the construction of an additional 10 million gallon finished water reservoir. The 10 million gallon finished water reservoir was completed in 2013, and represents a step toward expanding future treatment plant capacity.

The District's Statement of Net Position includes water assessments receivable of \$14,938,390 included in other assets, customer deposits of \$15,431,810 related to contracted BMP payments as of March 31, 2017. These amounts reflect errors in BMP payments made by the Urban Contractors. The District has informed the Urban Contractors that the current method of payment of the BMP conflicts with the terms of the Second Amended Contract, and Standard and Poor's has downgraded the District's bond rating as a direct result of the contractors' failure to follow the terms of the Second Amended Contract.

The City of Stockton constructed its Delta Water Supply Project (DWSP), which reduces the City of Stockton's share of water received from the District. As a result, the City of Stockton is of the opinion that its payments to the District will be reduced. This position is not supported as payments under the Second Amended Contract are based upon total water use within the District's service area and not water delivered from the treatment plant. Payments from the Urban Contractors continue to be in error and the District has demanded that payments be made in a timely manner in accordance with the Second Amended Contract.



# STOCKTON EAST WATER DISTRICT

## Management's Discussion and Analysis

March 31, 2017

The District will continue to focus its efforts in achieving its mission of restoring and protecting the Eastern San Joaquin Groundwater Basin by serving its community with projects like the water efficiency enhancements completed in 2006-2007 and the Farmington Groundwater Recharge and Seasonal Habitat Program, a 20-year \$33.3 million effort, launched in 2001. Surface water treated and delivered to its Urban Contractors is considered “in-lieu” groundwater recharge (an acre-foot of water not pumped from the basin is available for future use as stored groundwater). By encouraging a dual surface and groundwater supply system among the Urban Contractors, land developers, and the District’s agricultural customers, the District can address the problems created by the region’s critically over-drafted basin, retard saline intrusion, provide seasonal habitat for migratory waterfowl, and ultimately provide a sustainable long-term reliable water supply for its customers.

Joint efforts are on-going to develop and undertake groundwater recharge/banking projects to achieve a sustainable conjunctively managed surface and groundwater supply for the region. The focus of these projects is the construction of surface water distribution, storage, and recovery systems that store unused surface water and ultimately put it to beneficial use when surface water shortages occur. The District also plans to increase dry-year water availability to the Urban Contractors by developing a 230 acre surface water storage facility on the north side of the District’s water treatment plant. The District has prepared a Water Bank Business Plan and prepared an engineering feasibility study of the 230 acre parcel. On July 15, 2014, the District completed the purchase of the 230 acre parcel for a total of \$5,300,000. The purchase was partially financed with a \$3,325,000 note payable to the Bank of Stockton. The District will continue to pursue and evaluate water banking efforts and other viable options.

The District is developing a “banking division” strategy that may operate independent of either the Agricultural or Municipal Divisions. This strategy, modeled after successful water banks in the southern San Joaquin Valley, has the potential to create a revenue stream that assures the long-term viability of the District and its existing divisions.

### **Requests for Information**

The financial report is designed to provide the reader with a general overview of the District’s finances. Questions concerning any of the information provided herein or requests for additional information should be addressed to the Finance Director, Stockton East Water District, P.O. Box 5157, Stockton, California 95205.

# Stockton East Water District

## Statement of Net Position

March 31,

<b>Assets</b>	<b>2017</b>	<b>2016</b>
Current assets		
Cash and cash equivalents	\$ 21,871,350	\$ 18,505,710
Water assessments receivable	1,461,821	2,060,653
Interest and other receivables	425,101	595,539
Current maturities of contract receivable	54,680	54,680
Prepaid expenses and supplies	1,540,866	1,003,806
Total current assets	25,353,818	22,220,388
Restricted assets		
Cash and cash equivalents	6,973,923	6,790,652
Investments	9,695,528	106,792,294
Developer fees receivable	250,228	210,408
Total restricted assets	16,919,679	113,793,354
Property, plant and equipment, net of depreciation	86,887,078	89,693,541
Other assets		
Water assessments receivable	14,938,390	10,035,273
Long term contract receivable and other assets	483,157	556,040
Total assets	144,582,122	236,298,596
Deferred outflows of resources	1,968,013	418,644
Total assets and deferred outflows of resources	\$ 146,550,135	\$ 236,717,240
<b>Liabilities and net position</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,973,158	\$ 1,806,145
Compensated absences payable	484,654	512,971
Customer prepaid water tolls	15,431,810	10,889,582
Deferred revenue	691,851	-
Current portion of long-term debt	5,118,203	23,583,978
Interest payable	348,240	84,492,209
Total current liabilities	24,047,916	121,284,885
Long-term debt, less current portion		
Certificates of participation	31,047,076	35,593,680
State revolving fund	10,028,647	10,601,321
Bank of Stockton loan	2,832,174	2,973,019
Interest payable	25,071,145	21,697,871
Post employment benefits	1,808,130	1,550,375
Net pension liability	5,876,317	4,049,595
Total liabilities	100,711,405	197,750,746
Deferred inflows of resources	197,717	383,403
Total liabilities and deferred inflows of resources	100,909,122	198,134,149
Net position		
Invested in capital assets	22,423,980	17,805,370
Restricted for urban contractors	5,187,245	5,147,569
Restricted for capital projects	1,570,646	1,442,976
Restricted for dry year reserves	247,926	213,611
Unrestricted	16,211,216	13,973,565
Total net position	45,641,013	38,583,091
Total liabilities and net position	\$ 146,550,135	\$ 236,717,240

See accompanying notes to the financial statements

# Stockton East Water District

## Statement of Revenues, Expenses and Changes in Net Position

For the Years Ended March 31,

<b>Operating revenues</b>	<u>2017</u>	<u>2016</u>
Surface water sales and ground assessments	\$ 1,529,342	\$ 1,407,201
Municipal and industrial water	24,405,990	22,389,270
Source of supply charges	315,356	317,833
Total operating revenues	<u>26,250,688</u>	<u>24,114,304</u>
<b>Operating expenses</b>		
Source of supply	3,193,965	1,682,159
Transmission and distribution	1,707,010	1,304,957
Water treatment	6,478,985	5,786,885
General and administrative	3,549,558	3,704,150
Depreciation and amortization	3,148,435	3,182,559
Total operating expenses	<u>18,077,953</u>	<u>15,660,710</u>
Operating profit	<u>8,172,735</u>	<u>8,453,594</u>
<b>Nonoperating revenues (expenses)</b>		
Property taxes	426,965	387,476
Interest and investment income	263,752	4,290,734
Gain (loss) on sale of fixed assets	(1,533)	23,400
Net decrease in fair value of investments	-	(3,892,008)
Interest expense	(3,425,991)	(10,291,836)
Developer fees	1,713,661	1,324,118
Total nonoperating revenues (expenses)	<u>(1,023,146)</u>	<u>(8,158,116)</u>
GASB 68 implementation and net pension expense	<u>(91,667)</u>	<u>(4,014,355)</u>
Decrease in net position	<u>7,057,922</u>	<u>(3,718,876)</u>
Total net position, beginning of year	<u>38,583,091</u>	<u>42,301,967</u>
Total net position, end of year	<u>\$ 45,641,013</u>	<u>\$ 38,583,091</u>

*See accompanying notes to the financial statements*

# Stockton East Water District

## Statement of Cash Flows

For the Year Ended March 31,

	<u>2017</u>	<u>2016</u>
<b>Cash flows from operating activities</b>		
Cash received from customers	\$ 29,091,565	\$ 23,246,712
Cash payments for goods and services	(11,682,735)	(8,724,468)
Cash payments to employees	(1,493,398)	(3,344,112)
Net cash provided by operating activities	<u>15,915,432</u>	<u>11,178,132</u>
<b>Cash flows from non-capital and related financing activities</b>		
Property taxes	426,965	387,476
Net cash provided by non-capital and related financing activities	<u>426,965</u>	<u>387,476</u>
<b>Cash flows from capital and related financing activities</b>		
Principal payments on certificates of participation	(22,887,267)	(2,205,234)
Interest paid on certificates of participation	(87,998,502)	(1,104,703)
Developer fees received	1,713,661	1,324,118
Proceeds from long-term contract receivable	54,436	54,436
Payments on other long-term debt, net	(707,519)	(119,642)
Purchases of capital assets, net	(288,993)	(542,283)
Net cash used in capital and related financing activities	<u>(110,114,184)</u>	<u>(2,593,308)</u>
<b>Cash flows from investing activities</b>		
Net change in restricted assets	97,056,946	(7,383,897)
Interest income	263,752	4,314,128
Net change in fair value of investments	-	(3,892,008)
Net cash provided by (used in) investing activities	<u>97,320,698</u>	<u>(6,961,777)</u>
Net increase in cash and cash equivalents	<u>3,548,911</u>	<u>2,010,523</u>
Cash and cash equivalents, beginning of period	<u>25,296,362</u>	<u>23,285,839</u>
Cash and cash equivalents, end of period	<u>\$ 28,845,273</u>	<u>\$ 25,296,362</u>

*See accompanying notes to the financial statements*

# Stockton East Water District

## Statement of Cash Flows

For the Year Ended March 31,

	<u>2017</u>	<u>2016</u>
<b>Reconciliation of operating income to net cash provided by operating activities</b>		
Income from operations	\$ 8,172,735	\$ 8,453,595
Adjustments to reconcile income from operations to net cash provided by operating activities		
Depreciation and amortization	3,148,435	3,182,559
Other non-cash adjustments	1,735,055	-
Changes in operating assets and liabilities		
Water assessments and other receivables	769,270	(309,351)
Prepaid expenses and supplies	(464,177)	231,516
Accounts payable	161,403	2,939
Accrued payroll and related liabilities	2,056,139	360,038
Customer prepaid water tolls	(360,889)	(743,164)
Deferred revenue	697,461	-
Net cash provided by operating activities	<u>\$ 15,915,432</u>	<u>\$ 11,178,132</u>

*See accompanying notes to the financial statements*

# STOCKTON EAST WATER DISTRICT

## Notes to Financial Statements

March 31, 2017 and 2016

### **Note 1 – Summary of Significant Accounting Policies**

This summary of significant accounting policies of Stockton East Water District (the District) is presented to assist in understanding the District's financial statements.

#### Description of reporting entity

The District was organized on June 7, 1948 under the provisions of the California Water Conservation District Act of 1931.

The District's principal functions are:

- a. Develop and operate groundwater recharge and banking facilities to restore and protect the underground water supply,
- b. Contract for and regulate the flow of water from the New Hogan Dam on the Calaveras River to provide maximum benefit to the underground water supply,
- c. Contract for a supply of water from New Melones Dam on the Stanislaus River and regulate the diversion flow at Goodwin Dam through the New Melones Conveyance System for use within the Stockton East Water District and the Central San Joaquin Water Conservation District,
- d. Distribution of an agricultural surface water supply to more than 26,000 acres by use of check dams in natural channels,
- e. Operation of a drinking water treatment plant to supplement the supply of potable water to the metropolitan Stockton area, and
- f. Develop additional water supply contracts to provide future supplemental sources for the ultimate water needs of the area.

The governing board of the District consists of seven directors elected by the registered voters to represent specific areas within the District.

District management considered all potential component units for inclusion in the reporting entity by applying the criteria set forth in accounting principles generally accepted in the United States of America. The District concluded that there are no potential component units which should be included in the reporting entity.

#### Basis of accounting

The financial statements have been prepared on the economic resources measurement focus and the accrual basis of accounting. As allowed by Governmental Accounting Standards Board (GASB) Statement No. 68, *Codification of Accounting and Financial Reporting Guidance* the District's proprietary funds follow all GASB pronouncements and accounting standards set by the Financial Accounting Standards Board (FASB) and included in the Accounting Standards Codification (ASC), except those that conflict with a GASB pronouncement.

# STOCKTON EAST WATER DISTRICT

## Notes to Financial Statements

March 31, 2017 and 2016

### **Note 1 – Summary of Significant Accounting Policies (Continued)**

#### *Basis of accounting*

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The District's operating revenues include all revenues derived from the District's principal functions. Operating expenses include all costs related to the District's principal functions, general and administrative expenses, depreciation on capital assets and amortization on certificates of participation and installment purchase agreement issuance costs. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses, except for developer fees which are reported separately and represent capital contributions charged by the District relative to water service area annexation.

The District combines the accounts of all divisions. Interdivision transactions are eliminated in combination.

#### *Fund accounting*

The District utilizes proprietary funds to account for its activities, which are similar to those found in the private sector, where the determination of net income is necessary or useful for sound financial administration.

#### *Budgetary accounting*

The District utilizes formal budgetary procedures as required by District contracts, but is not required to adopt such procedures by law. The District adopts a budget annually which is approved by the Board of Directors.

#### *Cash and cash equivalents*

For purposes of the statement of cash flows, the District considers cash on hand, amounts due on demand from financial institutions within three months and cash held in the San Joaquin County Treasury to be cash and cash equivalents.

#### *Investments*

Investments with an original maturity of three months or less when purchased are reported at cost, which approximates fair value. Investments that mature beyond three months when purchased are reported at fair value. Fair value is determined by examining quoted market prices. The change in fair value is included in nonoperating revenues and expenses in the statement of revenues, expenses and changes in net assets.

# STOCKTON EAST WATER DISTRICT

## Notes to Financial Statements

March 31, 2017 and 2016

### **Note 1 – Summary of Significant Accounting Policies (Continued)**

#### Water assessments receivable

Water assessments receivable includes all amounts invoiced and not received by the District for surface water sales and groundwater assessments and municipal and industrial water. Under accounting principles generally accepted in the United States of America, an allowance for doubtful accounts is required to be provided based on historical experience and management's evaluation of outstanding receivables. The District maintains water assessments receivable included in other assets totaling \$14,938,390 and \$10,035,273 from the City of Stockton as of March 31, 2017 and 2016, respectively. The City of Stockton constructed the Delta Water Supply Project (DWSP) to supplement the supply of potable water for the City of Stockton's water service area. The construction of DWSP reduced the City of Stockton's share of water received from the District and, as a result, the City of Stockton has reduced its Base Monthly Payment (BMP) payment. However, BMPs under the Second Amended Contract are based on total water use within the District's service area and not water delivered from the treatment plant. BMPs from the City of Stockton continue to be in error and the District has demanded that payments be made in a timely manner in accordance with the Second Amended Contract. District management has not evaluated water assessments receivable from the City of Stockton included in other assets as of March 31, 2017 and 2016 for doubtful accounts.

Except as noted in the previous paragraph, District management considers all accounts receivable from water users and others to be fully collectible. Accordingly, an allowance for doubtful accounts has not been recorded in these financial statements.

#### Prepaid chemicals and supplies

The District's prepaid supplies, which includes chemicals, fuel and laboratory supplies is stated at the lower of cost or market using the first-in, first-out (FIFO) method of valuation.

#### Restricted assets

Restricted assets recorded in the financial statements consist of cash and cash equivalents, investments, interest receivable and developer fees receivable restricted for the following:

- Repayment of certificates of participation
- Urban Contractors' (City of Stockton, California Water Service Company, Lincoln Village Maintenance District and Colonial Heights Maintenance District) directives
- New Melones Conveyance System construction and improvements originating from certificates of participation issuances
- Treatment plant repairs and replacement
- Dry year reserves



# STOCKTON EAST WATER DISTRICT

## Notes to Financial Statements

March 31, 2017 and 2016

### Note 1 – Summary of Significant Accounting Policies (Continued)

#### Capital assets

All capital assets are valued at historical cost. The District's policy is to capitalize all assets with costs exceeding certain minimum thresholds and with useful lives exceeding two years.

GASB Statement No. 34 requires that all capital assets with limited useful lives be depreciated over their estimated useful lives. Depreciation has been provided on capital assets and is charged as an expense against operations each year. The total amount of depreciation taken over the years is reported on the balance sheet as a reduction in the book value of capital assets.

Depreciation is provided using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The District has assigned the useful lives listed below to capital assets.

Water contracts and rights	40 years
Wells and equipment	5 – 20 years
Groundwater recharge projects	10 – 50 years
Pipeline	10 – 50 years
New Melones Conveyance System	5 – 50 years
Ponding dams	15 – 50 years
Bridges and crossings	5 – 33 years
Treatment plant	10 – 50 years
Treatment plant equipment	5 – 30 years
Automotive equipment	5 – 15 years
Administration building	10 – 25 years
Furniture and office equipment	5 – 10 years

Major outlays for capital assets and improvements are capitalized as projects are constructed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell.

# STOCKTON EAST WATER DISTRICT

## Notes to Financial Statements

March 31, 2017 and 2016

### **Note 1 – Summary of Significant Accounting Policies (Continued)**

#### *Amortization of cost of issuance and refunding costs*

Issuance costs related to certificates of participation and installment purchase agreements are capitalized and amortized using the effective interest method over the life of the respective certificates of participation and installment purchase agreement. Refunding costs related to the issuance of certificates of participation used to advance refund other certificates of participation are capitalized and amortized using the effective interest method over the remaining life of the old debt (had it not been refunded) or the life of the new debt, whichever is shorter. All is recorded in accordance with GASB 65.

#### *Reclassifications*

Certain prior year amounts have been reclassified to conform to current year financial statement presentation. Net positions was unaffected.

#### *Customer prepaid water tolls*

Overpayments of BMP payments by the Urban Contractors are accrued and reported as customer deposits. As of March 31, 2017, customer deposits consist of \$12,966,069 from California Water Service Company, \$1,961,575 from Lincoln Village Maintenance District, and \$504,166 from Colonial Heights Maintenance District. As of March 31, 2016, customer deposits consist of \$9,196,813 from California Water Service Company, \$1,372,792 from Lincoln Village Maintenance District, and \$319,976 from Colonial Heights Maintenance District.

#### *Deferred outflows/inflows of resources*

In addition to assets and liabilities, the statement of net position will sometimes report a separate section for deferred outflows and inflows of resources. This separate financial statement element, *deferred outflows and inflows of resources*, represents a consumption and acquisition of net position that applies to a future period(s) and so will not be recognized as an outflow or inflow of resources (expense/expenditure) until then. The District reported \$1,968,013 and \$197,717 and \$418,644 and \$383,403 of deferred outflow and inflows, respectively, as of March 31, 2017 and 2016.

#### *Due from other divisions*

Expenses incurred by each division are occasionally paid by another division, upon authorization by the Board of Directors pursuant to its authorizing legislation.

# STOCKTON EAST WATER DISTRICT

## Notes to Financial Statements

March 31, 2017 and 2016

### **Note 1 – Summary of Significant Accounting Policies (Continued)**

#### Net position

Equity in the financial statements is classified as net position and displayed in three components as follows:

- a. Net investment in capital assets – Consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net position – Consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.
- c. Unrestricted net position – Consists of the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

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

#### Net position restrictions

Net position restricted for Urban Contractors' directives, New Melones Conveyance System construction and improvements, treatment plant repairs and replacements and dry year reserves, are recorded in the financial statements as restricted net position.

#### Surface water sales and ground water assessments

Surface and ground water revenues result from assessments by the District and are based upon acres irrigated or actual usage for agricultural or municipal and industrial purposes.

#### Municipal and industrial water

Municipal and industrial water revenues are primarily derived from fees charged under the Second Amended Contract. In addition, ground water rate equalization charges levied on ground water users within the municipal and industrial water service area are also included in municipal and industrial water revenue.

# STOCKTON EAST WATER DISTRICT

## Notes to Financial Statements

March 31, 2017 and 2016

### **Note 1 – Summary of Significant Accounting Policies (Continued)**

#### Property taxes

Property taxes levied January 1, 2016 were payable in two installments on December 10, 2016 and April 10, 2017. Property taxes levied January 1, 2015 were payable in two installments on December 10, 2015 and April 10, 2016. The County of San Joaquin bills and collects property taxes on behalf of the District.

The District is allocated a portion of property taxes collected by San Joaquin County. Property taxes receivable represents a portion of the July 1 to June 30 property taxes earned but uncollected at March 31.

#### Grant revenues

Income from grant agreements is recognized over the periods in which performance under the respective grant agreement relates. Determination of the classification of grant revenues as operating or nonoperating is based on the capital or operating nature of the related expenditures.

#### Subsequent events

The District has evaluated all events and transactions that occurred after March 31, 2017, and through the date the financial statements were available to be issued.

#### Estimates

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

#### New accounting pronouncements

##### GASB Statement No. 75

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for post employment benefits other than pensions. The statement is effective for fiscal years beginning after June 15, 2017. Management is currently evaluating the effect of this standard on the financial statements.

# STOCKTON EAST WATER DISTRICT

## Notes to Financial Statements

March 31, 2017 and 2016

### **Note 1 – Summary of Significant Accounting Policies (Continued)**

GASB 68 established standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. In addition, this Statement details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. This Statement also addresses circumstances in which a nonemployer entity has a legal requirement to make contributions directly to a pension plan.

The District recognized additional liabilities for outstanding defined pension benefit obligations as of March 31, 2017.

### **Note 2 – Cash and Cash Equivalents**

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the government unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. The District's bank deposits are not held in public deposit accounts and are, therefore, not collateralized in accordance with the California Government Code.

Cash held by the San Joaquin County Treasury is pooled with other County deposits for investment purposes by the County Treasurer in accordance with the investment policy of the County Treasurer. The Pool has established a treasury oversight committee to monitor and review the management of public funds maintained in the Pool. Participants' equity in the investment pool is determined by the dollar amount of the participant deposits, adjusted for withdrawals and distributed investment income. Investment income is prorated to individual funds based on their average daily cash balances. The value of the District shares in the Pool, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the District's position in the Pool. The District's investment in the Pool is unrated, stated at amortized cost which approximates fair value, available upon demand and considered cash equivalents. The District is not required to and does not maintain a formal investment policy.

# STOCKTON EAST WATER DISTRICT

## Notes to Financial Statements

March 31, 2017 and 2016

### Note 3 – Investments

As of March 31, 2017, the District's investments are categorized as follows:

<u>Investment</u>	<u>Fair Value</u>
U.S. Treasury obligations	\$ 9,679,677
	<u>\$ 9,679,677</u>

As of March 31, 2016, the District's investments are categorized as follows:

<u>Investment</u>	<u>Fair Value</u>
U.S. Treasury obligations	\$ 2,226,075
Cash and interest receivable	<u>104,552,715</u>
	<u>\$ 106,778,790</u>

The District is required to invest proceeds from development fees and certain proceeds from surface water sales and ground water assessments and municipal and industrial water revenues in U.S. Government securities. All investments are restricted for the defeasance of certificates of participation or treatment plant repairs and replacement as authorized and in accordance with the applicable certificate of participation agreement. All investments are held by the District's fiscal agent for the benefit of the District. Uninvested cash is unrated and represents deposits-in-transit or other cash held by the District's fiscal agent.

### Note 4 – Restricted Assets

The following is a summary of restricted assets along with the purpose of each restriction as of March 31,

	2017	2016
Repayment of certificates of participation	\$ 9,929,905	\$ 106,989,198
Urban Contractors' directives	5,187,245	5,147,569
New Melones Conveyance System construction and improvements	882,777	859,669
Treatment plant repairs and replacement	687,869	583,307
Dry year reserves	<u>231,882</u>	<u>213,611</u>
	<u>\$ 16,919,678</u>	<u>\$ 113,793,354</u>

# STOCKTON EAST WATER DISTRICT

## Notes to Financial Statements

March 31, 2017 and 2016

### Note 5 – Capital Assets

Capital asset activity for the year ended March 31, 2017 is as follows:

	Balance				Balance
	March 31, 2016	Additions	Disposals	Transfers	March 31, 2017
<b>Nondepreciable capital assets</b>					
Land and land rights	\$ 7,610,338				\$ 7,610,338
Total nondepreciable capital assets	7,610,338	-	-	-	7,610,338
<b>Depreciable capital assets</b>					
Water contracts and rights	3,142,139				3,142,139
Wells and equipment	1,584,888				1,584,888
Groundwater recharge projects	2,297,775				2,297,775
Pipeline	17,732,096				17,732,096
New Melones Conveyance	77,131,373				77,131,373
Ponding dams	400,689				400,689
Bridges and crossings	65,082				65,082
Treatment plant	39,520,374				39,520,374
Treatment plant equipment	1,275,576	252,373	(42,103)		1,485,846
Automotive equipment	1,319,431				1,319,431
Administration building	274,305	36,621	(28,095)		282,831
Furniture and office equipment	127,361				127,361
Total depreciable capital assets	144,871,089	288,994	(70,198)	-	145,089,885
Less accumulated depreciation	(62,787,886)	(3,082,343)	57,084	-	(65,813,145)
Total depreciable capital assets, net	82,083,203	(2,793,349)	(13,114)	-	79,276,740
Total capital assets, net	\$ 89,693,541	\$ (2,793,349)	\$ (13,114)	\$ -	\$ 86,887,078

# STOCKTON EAST WATER DISTRICT

## Notes to Financial Statements

March 31, 2017 and 2016

### Note 5 – Capital Assets (Continued)

Capital asset activity for the year ended March 31, 2016 is as follows:

	Balance				Balance
	March 31, 2015	Additions	Disposals	Transfers	March 31, 2016
<b>Nondepreciable capital assets</b>					
Land and land rights	\$ 7,610,338				\$ 7,610,338
Construction in progress	328,180			(328,180)	-
Total nondepreciable capital assets	7,938,518	-	-	(328,180)	7,610,338
<b>Depreciable capital assets</b>					
Water contracts and rights	3,142,139				3,142,139
Wells and equipment	844,669	412,039		328,180	1,584,888
Groundwater recharge projects	2,297,775				2,297,775
Pipeline	17,732,096				17,732,096
New Melones Conveyance	77,131,373				77,131,373
Ponding dams	400,689				400,689
Bridges and crossings	65,082				65,082
Treatment plant	39,505,598	14,776			39,520,374
Treatment plant equipment	1,278,446		(2,870)		1,275,576
Automotive equipment	1,382,229	36,328	(99,126)		1,319,431
Administration building	274,305				274,305
Furniture and office equipment	48,223	79,138			127,361
Total depreciable capital assets	144,102,624	542,281	(101,996)	328,180	144,871,089
Less accumulated depreciation	(59,761,848)	(3,128,034)	101,996	-	(62,787,886)
Total depreciable capital assets, net	84,340,776	(2,585,753)	-	-	82,083,203
Total capital assets, net	\$ 92,279,294	\$ (2,585,753)	\$ -	\$ -	\$ 89,693,541

### Note 6 – Long-Term Contract Receivable

Under terms of the “District Contract” dated August 25, 1970, between Stockton East Water District and Calaveras County Water District, the payment of all obligations under the “New Hogan Contract” is the responsibility of Stockton East Water District. The District Contract provides for payment by Calaveras County Water District to Stockton East Water District for 43.5% of the construction costs of New Hogan Dam exclusive of recreation features. The original amount receivable was determined by reference to the final construction cost of \$15,362,636. The contract also provides for payment to Stockton East Water District for Calaveras County Water District’s share of expense for operation, maintenance, replacement, contract administration and water-master expense. Total remaining balance at March 31, 2017 and 2016, (including current portion) was \$490,965 and \$546,011, respectively.



# STOCKTON EAST WATER DISTRICT

## Notes to Financial Statements

March 31, 2017 and 2016

### Note 7 – Long-Term Debt: Certificates of Participation and Installment Purchase Agreement

The following is a summary of certificates of participation and installment purchase agreement issuances and transactions during the year ended March 31, 2017:

	3/31/2016	Additions	Reductions	3/31/2017
1992 Certificates of Participation	\$ 20,705,319	\$ -	\$ (20,705,319)	\$ -
1997 Certificates of Participation	5,415,000	-	(670,000)	4,745,000
2002A Certificates of Participation, net	10,647,431	-	(1,157,431)	9,490,000
2002B Certificates of Participation	17,658,089	-	-	17,658,089
2005 Installment Purchase Agreement	4,053,555	-	(354,517)	3,699,038
	<u>\$ 58,479,394</u>	<u>\$ -</u>	<u>\$ (22,887,267)</u>	<u>\$ 35,592,127</u>

The following is a summary of certificates of participation and installment purchase agreement issuances and transactions during the year ended March 31, 2016:

	3/31/2015	Additions	Reductions	3/31/2016
1992 Certificates of Participation	\$ 20,705,319	\$ -	\$ -	\$ 20,705,319
1997 Certificates of Participation	6,050,000	-	(635,000)	5,415,000
2002A Certificates of Participation, net	11,877,747	-	(1,230,316)	10,647,431
2002B Certificates of Participation	17,658,089	-	-	17,658,089
2005 Installment Purchase Agreement	4,393,473	-	(339,918)	4,053,555
	<u>\$ 60,684,628</u>	<u>\$ -</u>	<u>\$ (2,205,234)</u>	<u>\$ 58,479,394</u>

#### 1997 Certificates of Participation

Effective December 1, 1997, the District issued \$11,300,000 at 4.25% interest in certificates of participation (1997 Certificates) to advance refund \$9,660,000 in outstanding 1992 Series A Certificates. The 1997 Certificates are term certificates. All District revenues are pledged for the repayment of the 1997 Certificates, which mature on April 1, 2022. The District is currently funding the repayment of the 1997 Certificates with municipal and industrial water revenues. Principal is payable annually each April 1 and interest is payable semi-annually each April 1 and October 1.

#### 2002B Certificates of Participation

Effective April 3, 2002, the District issued \$17,658,089 at interest ranging from 5.82% to 6.13% in certificates of participation (2002B Certificates) used to advance refund a portion of the 1990 Series B Certificates. The 2002B Certificates are capital appreciation certificates. All District revenues are pledged for the repayment of the 2002B Certificates, which mature on April 1, 2029. The District is currently funding the repayment of the 2002B Certificates with developer fees. Principal and accrued interest are payable annually each April 1 beginning April 1, 2017.

# STOCKTON EAST WATER DISTRICT

## Notes to Financial Statements

March 31, 2017 and 2016

### Note 7 – Long-Term Debt: Certificates of Participation and Installment Purchase Agreement (Continued)

#### 2002A Certificates of Participation

Effective February 1, 2002, the District issued \$25,140,000 at interest ranging from 4.375% to 5.25% in certificates of participation (2002A Certificates). The 2002A Certificates were comprised of \$21,635,000 in term certificates (2002A [Project 1990] Certificates), used to advance refund \$22,515,000 in outstanding 1992 Series A Certificates, and \$3,505,000 in term certificates (2002A [Project 1975] Certificates) used to advance refund \$4,160,000 in outstanding 1993 Certificates of Participation (Project 1975). The balance outstanding at March 31, 2017 consists only of 2002A (Project 1990) Certificates. All District revenues are pledged for the repayment of the 2002A Certificates. The District is currently funding the repayment of the 2002A Certificates with surface water sales and ground water assessments and municipal and industrial water revenues, the Certificates mature on April 1, 2022. Principal related to the 2002A (Project 1990) Certificates is payable annually, each April 1. Interest related to the 2002A (Project 1990) Certificates is payable semi-annually, each April 1 and October 1.

#### 2005 Installment Purchase Agreement

Effective October 1, 2005, the District entered into a \$7,000,000 installment purchase agreement (2005 Installment Purchase Agreement) at 4.25% interest to provide funding for the construction of certain improvements to the District's water treatment plant. All District revenues are pledged for the repayment of the 2005 Installment Purchase Agreement, which matures on October 1, 2025. The District is currently funding the repayment of the 2005 Installment Purchase Agreement with municipal and industrial water revenues. Principal and interest are payable semi-annually each April 1 and October 1.

Certificates of Participation and Installment Purchase Agreement service requirements to maturity are as follows:

<u>Year ending March 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 4,415,736	\$ 3,449,149	\$ 7,864,885
2019	4,405,611	3,457,261	7,862,872
2020	4,405,106	3,448,735	7,853,841
2021-2025	16,900,271	16,870,228	33,770,499
2026-2029	4,741,806	14,146,257	18,888,063
2030	<u>594,282</u>	<u>3,687,285</u>	<u>4,281,567</u>
Total requirements	35,462,812	<u>\$ 45,058,915</u>	<u>\$ 80,521,727</u>
Less deferred amount on advanced refundings	<u>(129,315)</u>		
Total principal outstanding at March 31, 2017	<u>\$ 35,592,127</u>		

# STOCKTON EAST WATER DISTRICT

## Notes to Financial Statements

March 31, 2017 and 2016

### **Note 8 – Long-Term Debt: Other Long-Term Debt**

The District entered into a funding agreement with the State of California Department of Public Health. The purpose of the funding agreement is to assist the District in financing the construction of a 10 million gallon finished water reservoir and repair of the District's existing finished water reservoir. The funding agreement consists of a \$15,000,000 revolving loan, equal to the total estimated construction cost and repairs. The revolving loan carries no interest, and, upon completion of construction and repairs, is amortized over a 20-year term and payable in semi-annual payments each January 1 and July 1, beginning July 1, 2017. The District will fund the repayment of the revolving loan with municipal and industrial water revenues. The balance of the state revolving fund loan was \$10,601,320 and \$11,173,995 as of March 31, 2017 and 2016, respectively. Future principal payments for the five succeeding years of March 31, 2017 are as follows: \$572,674 in 2018; \$572,674 in 2019; \$572,674 in 2020; \$572,674 in 2021; and \$572,674 in 2022 .

On July 15, 2014, the District entered into a \$3,325,000 note payable with the Bank of Stockton to provide financing relative to the purchase of real property adjacent to the District's treatment plant property, consisting of approximately 230 acres. The note is payable in 19 quarterly installments of \$56,932, with interest at 3.25%, collateralized by a deed of trust on real property, with all remaining principal and accrued interest due July 15, 2019. The District will fund the repayment of the Bank of Stockton note payable with municipal and industrial water revenues. Future principal payments for the succeeding years from March 31, 2017 are as follows: \$129,782 in 2018; \$134,115 in 2019; and \$138,597 in 2020; \$143,221 in 2021; and \$147,999 in 2022.

# STOCKTON EAST WATER DISTRICT

## Notes to Financial Statements

March 31, 2017 and 2016

### Note 9 – Net Position

Reconciliations of net investment in capital assets and restricted net position classifications in the financial statements as of March 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
<b>Net investment in capital assets</b>		
Investments	\$ 9,679,677	\$ 106,778,790
Developer fees receivable	250,228	210,408
Capital assets, net of accumulated depreciation	86,887,078	89,693,541
COP issuance costs, net of accumulated amortization	46,872	64,709
Current portion of long-term debt (payable from current assets)	-	(698,264)
Current liabilities (payable from restricted assets)	(5,118,203)	(22,359,196)
Long-term debt	(69,321,672)	(155,884,618)
Total net investment in capital assets	<u>\$ 22,423,980</u>	<u>\$ 17,805,370</u>
<b>Restricted for urban contractors</b>		
Cash and cash equivalents – restricted	5,176,114	5,136,414
Interest receivable, San Joaquin County – restricted	11,131	11,155
Total net position restricted for urban contractors	<u>\$ 5,187,245</u>	<u>\$ 5,147,569</u>
<b>Restricted for capital projects</b>		
Cash and cash equivalents – restricted	1,567,114	1,440,932
Interest receivable, San Joaquin County – restricted	3,532	2,044
Total net position restricted for capital projects	<u>\$ 1,570,646</u>	<u>\$ 1,442,976</u>
<b>Restricted for dry year reserves</b>		
Cash and cash equivalents – restricted	247,926	213,611
Total net position restricted for dry year reserves	<u>\$ 247,926</u>	<u>\$ 213,611</u>

### Note 10 – Compensated Absences

As of March 31, 2017 and 2016, the District's accrued liabilities for accumulated unused vacation and sick leave were \$484,654 and \$512,971, respectively. Employees accrue vacation and sick leave benefits based on length of service and current compensation. Accumulated vacation days are subject to a maximum accrual of 240 hours. Accumulated unused sick leave is 25% vested upon five years of continued service and 50% vested upon ten years of continued service. Employees are paid for their accumulated unused vacation and sick leave upon separation of service.

# STOCKTON EAST WATER DISTRICT

## Notes to Financial Statements

March 31, 2017 and 2016

### Note 11 – Developer Fees

Developer fees are collected to repay debt associated with the New Melones Conveyance System, which is currently expected to be thru 2029. Fees collected are recorded in the statement of revenues, expenses and changes in net assets. A schedule of the changes in total developer fees collected during the years ended March 31, 2017 and 2016 is as follows:

	<u>City of Stockton</u>	<u>San Joaquin County</u>	<u>Total</u>
Total developer fees collected as of March 31, 2015	<u>\$ 63,025,646</u>	<u>\$ 4,496,755</u>	<u>\$ 67,522,403</u>
Developer fees collected during the year ended March 31, 2016	<u>1,243,582</u>	<u>80,536</u>	<u>1,324,118</u>
Total developer fees collected as of March 31, 2016	<u>\$ 64,269,228</u>	<u>\$ 4,577,291</u>	<u>\$ 68,846,519</u>
Developer fees collected during the year ended March 31, 2017	<u>1,509,846</u>	<u>203,815</u>	<u>1,713,661</u>
Total developer fees collected as of March 31, 2017	<u>\$ 65,779,074</u>	<u>\$ 4,781,106</u>	<u>\$ 70,560,180</u>

# STOCKTON EAST WATER DISTRICT

## Notes to Financial Statements

March 31, 2017 and 2016

### **Note 12 – Defined Benefit Pension Plan**

#### Plan description

The District's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The plan is part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), an cost-sharing multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements are established by State statutes within the Public Employees' Retirement Law. The District selects optional benefit provisions from the benefit menu by contract with CalPERS. CalPERS issues a separate comprehensive annual financial report. CalPERS maintains all plan documents on a June 30 fiscal year basis. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

#### California Public Employees Pension Reform Act of 2016

On September 12, 2012, the California Governor signed the California Public Employees' Pension Reform Act of 2016 (PEPRA) into law. PEPRA took effect January 1, 2016.

Key components of the legislation are as follows:

- Establishes PEPRA, which will apply to all public employers and public pension plans on and after January 1, 2016 (Except specific exemptions);
- Establishes new retirement tiers/benefits for new public employees;
- Requires that new employees pay at least 50% of the total annual normal cost and that current employees approach the same goal through collective bargaining;
- Increases retirement age for all new public employees.

Separate tiers based on employee classification (Miscellaneous 2% at 55 and PEPRA Miscellaneous 2% at 62) are maintained and reported by CalPERS on behalf of the District. Both tiers are under the scope of GASB 68.

#### Funding policy

Active plan members who are part of the Miscellaneous 2% at 55 tier are required to contribute 7% of their annual covered salary which the District pays as a component of the employees' benefit package. Active plan members who are part of the PEPRA Miscellaneous 2% at 62 tier are required to contribute 50% of the total normal cost. District contributions on behalf of active plan members who are part of the PEPRA Miscellaneous 2% at 55 tier will continue until March 31, 2020, at which time the current memorandum of understanding with employees expires.

# STOCKTON EAST WATER DISTRICT

## Notes to Financial Statements

March 31, 2017 and 2016

### Note 12 – Defined Benefit Pension Plan (continued)

The Governmental Accounting Standards Board (GASB) Statement 68, *Accounting and Financial Reporting for Pensions*, became effective for fiscal years beginning after June 15, 2014. The statement established accounting and financial reporting standards for the recognition and disclosure requirements for employers with a liability to a defined benefit pension plan. GASB 68 requires that the District's liability be measured as the portion of the present value of projected benefit payments to be provided to current and inactive employees that is attributed to the employee's past periods of service, less the amount of the plan's net position. The statement also requires employers to present information about the changes in net pension liability. The District is also required to present a ten year schedule containing the net pension liability and certain related ratios, and information about statutorily or contractually required contributions and related ratios. Until a full ten year trend is complied, the District will present information for only those years for which information is available.

The following is information the District is required to disclose under GASB 68.

**Pension liabilities:** At March 31, 2017, the District reported a liability of \$5,876,317 for its proportionate share of the net pension liability. The District's proportion of the net pension liability was based on the District's share of contributions in the plan relative to the total contributions of all participating employers. At June 30, 2016, the District's proportion was .00159 percent. The District's liability as of March 31, 2017 was measured as of June 30, 2016, for the measurement period of June 30, 2015 to June 30, 2016.

**Employees covered by benefit terms:** There are currently 39 active participants in the plan, and 28 participants receiving benefits, also one is no longer employed by the District but is vested.

**Contributions:** The recommended contribution for the 2017 plan year is \$548,902 (assuming contributions will be deposited throughout the plan year). The overall contributions to the plan as a percentage of covered-employee payroll was 17.3%.

**Actuarial assumptions:** Level percentages of payroll normal costs are determined using the Entry Age Normal Cost Method. Under the Entry Age Normal Cost Method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated as a level percentage of each year's earning of the individual between entry age and assumed exit age. The total pension liability in the June 30, 2105 measurement date actuarial valuation was determined using the following assumptions, applied to all periods in the measurement: 1) Inflation of 2.75%; 2) Payroll growth of 3%; 3) 7.5% investment rate of return.

Mortality rates were based on the CalPERS experience Study for a twenty year period reported in April 2014.

There were no changes in the methods or assumptions used to determine legally required contributions.

# STOCKTON EAST WATER DISTRICT

## Notes to Financial Statements

March 31, 2017 and 2016

### **Note 12– Defined Benefit Pension Plan (continued)**

**Discount rate:** The discount rate used to measure the total pension liability was 7.65%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on these assumptions, the pension plan's net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term expected rate of return was determined net of pension plan investment expense but without reduction for pension plan administrative expense.

**Sensitivity of the net pension liability to changes in the discount rate:** It is estimated that a 1% increase in the discount rate would decrease the net pension liability by approximately \$2.41 million dollars and a 1% decrease in the discount rate would increase the net pension liability by approximately \$2.91 million dollars.

### **Note 13 – Deferred Compensation Plan**

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all permanent District employees, permits them to defer a portion of their compensation until future years, and is strictly voluntary on behalf of the employees, and is not mandated by the District. The deferred compensation is available to employees upon termination, retirement, death or unforeseeable emergency. As part of its employee benefit package, the District contributes to the plan a portion of the employees' eligible contribution. District contributions are included in employees' salaries and wages.

The District contribution rate for the years ended March 31, 2017 and 2016 was 5.5%, respectively, of the employees' base salary. The District's contribution rate is scheduled at 5.5% for the year ending March 31, 2017, in accordance with a negotiated memorandum of understanding with employees and adoption by the Board of Directors. Additional contributions can be made by the employee up to statutory limitations. Total employee and District contributions included in salaries and wages expense were \$295,259 and \$266,684 respectively, for the years ended March 31, 2017 and 2016.



# STOCKTON EAST WATER DISTRICT

## Notes to Financial Statements

March 31, 2017 and 2016

### **Note 14 – Other Post-Employment Benefits**

The District provides post-employment health benefits, in accordance with a negotiated memorandum of understanding with employees and adoption by the Board of Directors, for retired employees who meet the eligibility requirements and elect the option. Benefits are recognized as claims are paid. The post-employment health benefits are paid by all funds based upon each retiree's payroll allocation during employment. For the years ended March 31, 2017 and 2016, the Other Post-Employment Benefit accrual increased \$257,755 and \$317,218, respectively.

#### Plan description

The District administers the Other Post-Employment Benefit (OPEB) Plan, a single-employer defined benefit plan. The activity and liability from the OPEB plan are included in these financial statements. The District's OPEB Plan provides medical insurance and supplemental Medicare insurance for an eligible retired employee and one dependent. In order to be eligible to retire with District-paid health benefits, an employee must have completed 5 years of service with the District, and have retired under CalPERS. For retirements occurring before August 19, 2009, the District will pay full medical premiums for the lifetime of the retiree. For retirements occurring on or after August 19, 2009, the following two additional provisions apply:

- 1) retirees over age 65 must enroll in Medicare to preserve their eligibility for lifetime District-paid benefits; and
- 2) The District will continue a percentage of a covered spouse's medical premium based on years of service of the retiree as follows: 0% for less than 20 years of service, 50% for at least 20 years of service but less than 30 years of service, and 100% for 30 or more years of service.

#### Funding policy

The District pays 100% of the cost of the OPEB plan. The District funds the plan on a pay-as-you-go basis and maintains reserves and records a liability for the difference between the pay-as-you-go and the actuarially determined annual OPEB cost.

The District recognizes GASB 75 and the primary objective of this Statement is to improve accounting and financial reporting by state and local governments for post employment benefits other than pensions. The statement is effective for fiscal years beginning after June 15, 2017. Management is currently evaluating the effect of this standard on the financial statements.

# STOCKTON EAST WATER DISTRICT

## Notes to Financial Statements

March 31, 2017 and 2016

### Note 14 – Other Post-Employment Benefits (Continued)

#### Annual OPEB cost

The following table presents the components of the District's annual OPEB cost, amounts actually contributed, and changes in net OPEB obligation for the years ended March 31,

	<u>2017</u>	<u>2016</u>
Annual required contribution	\$ 584,681	\$ 584,681
Interest on net OPEB obligation	81,367	55,492
Adjustment to annual required contribution	<u>(181,780)</u>	<u>(144,585)</u>
Annual OPEB expense	448,268	495,588
Contributions made:		
Retired employees post employment medical benefit payments	<u>(226,513)</u>	<u>(178,370)</u>
Increase in net OPEB obligation	257,755	317,218
Net OPEB obligation, beginning of year	<u>1,550,375</u>	<u>1,233,157</u>
Net OPEB obligation, end of year	<u>\$ 1,808,130</u>	<u>\$ 1,550,375</u>

#### Funded status of the plan

The most recent valuation dated April 1, 2014 includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of \$4,161,427. There are no plan assets because the District funds on a pay-as-you-go basis and maintains reserves equal to the remaining net OPEB obligation.

#### Schedule of funding progress

Fiscal year end	Actuarial valuation date	Actuarial accrued liability (a)	Actuarial value of assets (b)	Unfunded Actuarial accrued liability (UAAL) (a) – (b)	Funded status (b) / (a)
3/31/15	4/1/14	\$ 4,161,427	-	\$ 4,161,427	0.0
3/31/16	4/1/14	4,161,427	-	4,161,427	0.0
3/31/17	4/1/14	4,161,427	-	4,161,427	0.0

# STOCKTON EAST WATER DISTRICT

## Notes to Financial Statements

March 31, 2017 and 2016

### Note 14 – Other Post-Employment Benefits (Continued)

#### Three year trend information

The District's annual OPEB cost, percentage of annual OPEB costs contributed, and the net OPEB obligation are as follows:

<u>Fiscal year ended</u>	<u>Annual OPEB cost</u>	<u>Percentage of annual OPEB costs contributed</u>	<u>Net OPEB obligation</u>
3/31/15	\$ 528,340	31.5%	\$ 1,233,157
3/31/16	495,588	31.9	1,550,375
3/31/17	484,268	32.2	1,808,130

### Note 15 – Joint Venture (Joint Powers Agreement)

The District is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In order to insure for risks of loss, the District participates in a joint venture under a joint powers agreement with the Association of California Water Agencies Joint Powers Insurance Authority (JPIA). The relationship between the District and the JPIA is such that the JPIA is not a component unit of the District for financial reporting purposes.

The JPIA arranges for and provides self-insured programs for liability, property, workers' compensation and underground storage tank pollution liability coverages for member districts. Each district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to their participation in the JPIA. The District's share of surpluses and deficits cannot be determined, although District management does not expect such amounts, if any, to be material in relation to the financial statements.

The latest audited financial information for the JPIA is for the fiscal year ending September 30, 2016 and the condensed financial information of the JPIA is as follows:

Total assets	\$ 190,632,540
Total liabilities	<u>(121,928,923)</u>
Net assets	<u>\$ 68,703,617</u>

The entity did not have long-term debt outstanding at September 30, 2016. The District's share of the year-end assets, liabilities or fund equity has not been calculated by the JPIA.

# STOCKTON EAST WATER DISTRICT

## Notes to Financial Statements

March 31, 2017 and 2016

### **Note 16 – Commitments and Contingencies**

#### *Second Amended Contract*

The District is a party to the Second Amended Contract with City of Stockton, California Water Service Company, San Joaquin County, Lincoln Village Maintenance District, and Colonial Heights Maintenance District (Urban Contractors) in which the District agreed to make available to the Urban Contractors a minimum of 20,000 acre-feet of treated water. The contract calls for the Urban Contractors to make payments to the District in the amounts necessary to reimburse the District for all municipal and industrial source of supply and transmission and distribution expenses, operation and maintenance costs of the treatment plant, principal and interest payments on certificates of participation used for the construction of the treatment plant and for the municipal and industrial share of conveyance and storage facilities and other items as specified under the Second Amended Contract. The Contract remains in effect until April 1, 2035.

Contractor payments under the Second Amended Contract are based on the proportion of total water produced by the respective contractor from any source, not the amount delivered from the District. In April 2012, the Urban Contractors signed an agreement, separate from the Second Amended Contract and not signed by the District, reallocating use of the District's water supply. The agreement also reallocated payments to the District based on water delivered by the District, rather than total water produced, which is inconsistent with the methodology in the Second Amended Contract. Therefore, while the District has received payments in amounts equal to the total amount owed by all contractors under the Second Amended Contract, the payments have not been made by the contractor to whom the charge was allocated. The District is working with the Urban Contractors to determine how to address the respective overpayments and underpayments.

#### *New Melones Contract*

Under terms of a contract known as the "New Melones Contract" dated October 4, 1983 between the United States of America and Stockton East Water District, the District contracted to receive water from the New Melones Dam and Reservoir on the Stanislaus River. The New Melones Contract establishes minimum and maximum amounts of water to be delivered for both agricultural and municipal and industrial use. These amounts of water delivered may be reduced under certain limited circumstances. Rates for the water delivered to the District are based on the rates set by the California Central Valley Project and the Bureau of Reclamation for agricultural and municipal and industrial water.

# STOCKTON EAST WATER DISTRICT

## Notes to Financial Statements

March 31, 2017 and 2016

### **Note 16 – Commitments and Contingencies (Continued)**

#### *New Hogan Dam Contract*

Under terms of a contract known as the “New Hogan Contract” dated August 25, 1970, between the United States of America, Stockton East Water District and Calaveras County Water District, the two districts contracted to receive the full yield of the New Hogan Project in exchange for repaying the United States of America a portion of the construction costs of New Hogan Dam, excluding recreation features. This repayment obligation was paid in 2011.

The District now continues for a portion of the annual operation, maintenance, replacement and contract administration costs. This payment is determined every five years based on estimated costs as determined by the U.S. Army Corps of Engineers and adjusted for the differences between the actual costs and estimated costs of the prior five years.

#### *New Melones Conveyance System*

The District constructed the New Melones Conveyance System (the “System”) transports water from the New Melones Reservoir to the District’s water treatment plant. This water provides a surface water supply in addition to the District’s existing surface supply from the New Hogan Reservoir and wells pumping ground water. The System consists of the purchase of an undivided one-third interest in Goodwin Dam, a diversion structure at Goodwin Dam, the Goodwin Tunnel, and the Upper Farmington Canal Improvements to Shirley, Hoods and Rock Creeks for conveyance, the Lower Farmington canal, Peters Pipeline and improvements to the existing District water treatment plant. The System contains both single-use facilities, to be used exclusively by the District, and facilities used to provide New Melones water to the Central San Joaquin Water Conservation District.

### **Note 17 – Governing Board**

As of March 31, 2017, the seven members of the District’s Board of Directors were as follows:

<u>Director</u>	<u>Division</u>	<u>Term expires</u>
Richard Atkins	1	December 2017
Andrew Watkins	2	December 2018
Alvin Cortopassi	3	December 2017
Melvin Panizza	4	December 2017
Paul Sanguinetti	5	December 2018
Loralee McGaughey	6	December 2018
Thomas McGurk	7	December 2018

**COMBINING FINANCIAL STATEMENT AND OTHER SUPPLEMENTARY  
INFORMATION**

Stockton East Water District

Combining Statement of Net Position

March 31, 2017

	Admin	Agricultural	Municipal Division		Consolidated	2016
			Groundwater	Treatment Plant	Total	Consolidated
					Total	Total
<b>Assets</b>						
<b>Current assets</b>						
Cash and cash equivalents	\$ 8,184,709	\$ 671,500	\$ 342,466	\$ 12,672,676	\$ 21,871,350	\$ 18,505,710
Water assessments receivable		468,500	16,737	976,584	1,461,821	2,060,653
Interest receivable, San Joaquin County	18,546	496	1,095	30,970	51,107	27,544
Interest receivable, other	22,093				22,093	24,571
Other receivables	350,301	-	1,600	-	351,901	543,424
Due to (from) other divisions	(593,949)	(233,826)	782,671	45,104	(0)	-
Current maturities of contract receivable	54,680				54,680	54,680
Inventory				154,843	154,843	105,835
Prepaid expenses	258,900	176,750	3,827	946,546	1,386,023	897,971
<b>Restricted assets</b>						
Cash and cash equivalents	880,771	149,405	81,951	5,861,796	6,973,923	6,790,652
Investments	9,679,677				9,679,677	106,778,790
Interest receivable, San Joaquin County	2,006	340	186	13,319	15,851	13,504
Developer fees receivable	250,228				250,228	210,408
Total current and restricted assets	19,107,962	1,233,165	1,230,533	20,701,837	42,273,497	136,013,742
Property, plant and equipment, net	53,806,597	90,407	6,040,577	26,949,497	86,887,078	89,693,541
<b>Other assets</b>						
Water assessments receivable				14,938,390	14,938,390	10,035,273
Long term contract receivable	436,285				436,285	491,331
Debt refunding costs, net of amortization	46,872				46,872	64,709
Total assets	73,397,716	1,323,572	7,271,110	62,589,724	144,582,122	236,298,596
Deferred outflows	1,968,013				1,968,013	418,644
Total assets and deferred outflows	\$ 75,365,729	\$ 1,323,572	\$ 7,271,110	\$ 62,589,724	\$ 146,550,135	\$ 236,717,240
<b>Liabilities and net position</b>						
<b>Current liabilities</b>						
Accounts payable and accrued liabilities	948,961		206	1,023,990	1,973,156	1,806,144
Compensated absences payable	169,164			315,490	484,654	512,971
Customer prepaid water tolls				15,431,810	15,431,810	10,889,582
Deferred revenue	541,851			150,000	691,851	-
Current portion of long-term debt	4,053,685		129,793	934,725	5,118,203	23,583,978
Interest payable	348,240				348,240	84,492,209
Total current liabilities	6,061,902	-	129,999	17,856,016	24,047,914	121,284,884
<b>Long-term debt, less current portion</b>						
Certificates of participation	27,710,090			3,336,986	31,047,076	35,593,680
State revolving fund loan				10,028,647	10,028,647	10,601,321
Bank of Stockton loan			2,832,174		2,832,174	2,973,019
Interest payable	25,071,145				25,071,145	21,697,871
Accrued post-employment benefits	430,861	373,790		1,003,479	1,808,130	1,550,375
Net pension liability	5,876,317				5,876,317	4,049,595
Total liabilities	65,150,315	373,790	2,962,173	32,225,128	100,711,404	197,750,746
Deferred inflows	197,717				197,717	383,403
<b>Net position</b>						
Invested in capital assets	6,605,824	90,407	3,078,610	12,649,139	22,423,980	17,805,370
Restricted for urban contractors	-	-	-	5,187,245	5,187,245	5,147,569
Restricted for capital projects	882,777	-	-	687,869	1,570,646	1,442,976
Restricted for dry year reserves	-	149,745	82,137	-	231,882	213,611
Unrestricted	2,529,097	709,630	1,148,190	11,840,344	16,227,260	13,973,565
Total net position	10,017,698	949,782	4,308,938	30,364,597	45,641,013	38,583,091
Total liabilities and net position	\$ 75,365,730	\$ 1,323,572	\$ 7,271,111	\$ 62,589,724	\$ 146,550,135	\$ 236,717,240

# Stockton East Water District

## Combining Statement of Revenues, Expenses and Changes in Net Position

March 31, 2017

	Admin	Agricultural	Municipal Division		Eliminations	Consolidated Total	2016 Consolidated Total
			Groundwater	Treatment Plant			
<b>Operating revenues</b>							
Surface water sales and assessments	\$ -	\$ 1,480,186	\$ 49,156	24,405,990	\$ -	\$ 1,529,342	\$ 1,407,201
Municipal and industrial water					-	24,405,990	22,389,270
Administration charges	3,150,632				(3,150,632)	(0)	0
Source of supply charges	315,356					315,356	317,833
Transmission and distribution charges	2,606,346				(2,606,346)	0	(0)
Total operating revenues	6,072,334	1,480,186	49,156	24,405,990	(5,756,978)	26,250,688	24,114,304
<b>Operating expenses</b>							
Source of supply	694,676	398,520	88,761	2,012,009		3,193,965	1,682,159
Transmission and distribution charges	1,914,324	391,133	495,643	1,512,256	(2,606,346)	1,707,010	1,304,957
Water treatment				6,478,985		6,478,985	5,786,884
General and admin	3,393,599	579,835		2,726,756	(3,150,632)	3,549,558	3,704,150
Depreciation	2,015,813	6,564	37,011	1,022,955	-	3,082,343	3,128,034
Amortization	66,091					66,091	54,525
Total operating expenses	8,084,504	1,376,052	621,415	13,752,961	(5,756,978)	18,077,953	15,660,709
Operating profit (loss)	(2,012,170)	104,134	(572,259)	10,653,029	-	8,172,735	8,453,595
<b>Nonoperating revenues (expenses)</b>							
Property taxes	426,965	-	-	-		426,965	387,476
Interest, San Joaquin County	61,075	3,928	3,993	133,054		202,050	128,129
Interest, investments and other	1,343	-	59,813	547		61,702	4,162,605
Gain (loss) on sale of fixed assets	11,581			(13,114)		(1,533)	23,400
Net decrease in the fair value of investments	-	-	-	-		-	(3,892,008)
Interest expense	(3,151,398)	-	(106,044)	(168,549)		(3,425,991)	(10,291,836)
Net pension expense	(91,667)					(91,667)	(4,014,355)
Net profit (loss) prior to other items	(4,754,272)	108,062	(614,497)	10,604,968	-	5,344,261	(5,042,994)
Developer fees	1,713,661					1,713,661	1,324,118
Interdivision transfers- debt service	7,417,793	(363,316)		(7,054,478)	-	(0)	-
Interdivision transfers- other	(381,276)	423,768	1,279,145	(1,321,637)	-	0	-
Change in net position	3,995,907	168,515	664,648	2,228,853	-	7,057,922	(3,718,876)
Net position, beginning of year	6,021,791	781,267	3,644,289	28,135,744		38,583,091	42,301,967
Net position, end of year	\$ 10,017,698	\$ 949,782	\$ 4,308,938	\$ 30,364,597	\$ -	\$ 45,641,013	\$ 38,583,091



## STOCKTON EAST WATER DISTRICT

### Schedules of Certificates of Participation and Installment Purchase Agreement Maturities by Funding Source

March 31, 2017

Pursuant to certificate of participation agreements and the installment purchase agreement, the District pledged all District revenues for repayment of certificates of participation and the installment purchase agreement. The District is currently funding the repayment of the 1997 and 2002A Certificates of Participation and the 2005 Installment Purchase Agreement with surface water sales and ground water assessments and municipal and industrial water revenues and the 2002B Certificates of Participation with developer fees. The following is an analysis of certificates of participation maturities by current funding source.

Service requirements to maturity for the 1997 and 2002A Certificates of Participation and the 2005 Installment Purchase Agreement which are currently funded with surface water sales and ground water assessments and municipal and industrial water revenues are as follows:

<u>Year ending March 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 2,467,051	\$ 807,834	\$ 3,274,885
2019	2,582,601	690,271	3,272,872
2020	2,698,820	565,021	3,263,841
2021	2,830,735	431,950	3,262,685
2022	2,963,377	292,495	3,255,872
2023	3,111,776	144,034	3,255,810
2024	465,966	57,100	523,066
2025	485,980	37,086	523,066
2026	<u>506,854</u>	<u>16,212</u>	<u>523,066</u>
	<u>\$ 18,113,160</u>	<u>\$ 3,042,003</u>	<u>\$ 21,155,163</u>

## Stockton East Water District

### Schedules of Certificates of Participation and Installment Purchase Agreement Maturities by Funding Source (Continued)

March 31, 2017

Service requirements to maturity for the 2002B Certificates of Participation which are currently funded with developer fees and municipal and industrial water revenues are as follows:

<u>Year ending March 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 1,948,685	\$ 2,641,315	\$ 4,590,000
2019	1,823,010	2,766,990	4,590,000
2020	1,706,287	2,883,713	4,590,000
2021	1,595,484	2,994,516	4,590,000
2022	1,495,927	3,094,073	4,590,000
2023	1,401,740	3,188,260	4,590,000
2024	1,315,402	3,274,598	4,590,000
2025	1,233,884	3,356,116	4,590,000
2026	1,159,572	3,430,428	4,590,000
2027	1,089,528	3,500,472	4,590,000
2028	1,023,524	3,566,476	4,590,000
2029	962,331	3,632,669	4,595,000
2030	<u>902,715</u>	<u>3,687,285</u>	<u>4,590,000</u>
	<u>\$ 17,658,089</u>	<u>\$ 42,016,911</u>	<u>\$ 59,675,000</u>

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## **BUSINESS CONSULTANT AGREEMENT**

This Business Consultant Agreement (Agreement) is entered into this 1<sup>st</sup> day of October 2017 by and between STOCKTON EAST WATER DISTRICT (District) and ANTHONY M. BARKETT, (Consultant).

1. Consultation Services. District hereby employs Consultant to perform the following services in accordance with the terms and conditions set forth in this Agreement:

a. The Consultant will consult with the officers and employees of the District concerning matters for which District seeks Counsel on local, state and federal politics. The Consultant will also advise on business development and legal matters. The Consultant will not act as Legal Counsel for the District.

b. Consultant will represent District's interests before local, state and federal governmental agencies, elected representatives, regulatory agencies, and trade associations and public affairs groups with emphasis on District's needs in the water area.

2. Terms of Agreement. This Agreement is effective as of October 1, 2017 and shall continue for a period of six months from the effective date, through March 31, 2018. Either party may cancel this agreement on thirty (30) day notice to the other party in writing, by certified mail or personal delivery.

3. Time Devoted by Consultant. It is anticipated the Consultant will spend approximately 8 hours per week in fulfilling its obligations under this Agreement. The particular amount of time may vary from day to day or week to week. However, the Consultant shall devote a minimum of 4 days per month to its duties in accordance with this agreement.

4. Place Where Services Will Be Rendered. The Consultant will perform services in accordance with this Agreement at its various places of business, including at 119 East Weber Avenue, Stockton CA 95202, as well as on the telephone, via internet and email, and at such other places as designated by the District to perform these services in accordance with this Agreement.

5. Payment to Consultant. The Consultant will be paid at the rate of Five Thousand Five Hundred Dollars (\$5,500.00) per month for work performed in accordance with this Agreement, and regardless of the amount of time spent in accordance with this Agreement. The Consultant will submit a statement for services rendered, and the District will pay the Consultant the amounts due within ten (10) days of receipt.

6. Independent Contractor. The parties agree that the Consultant will act as an

independent contractor in the performance of its duties under this Agreement. Accordingly, the Consultant shall be responsible for payment of all taxes including federal, state and local taxes arising out of the Consultant's activities in accordance with this contract, including by way of illustration but not limitation, federal and state income tax, Social Security tax, Unemployment Insurance taxes, and any other taxes or business license fee as required.

7. Confidential Information. The Consultant agrees that any information received by the Consultant during any furtherance of the Consultant's obligations in accordance with this Agreement, that concerns the affairs of the District will be treated by the Consultant in full confidence and will not be revealed to any other persons, firms or organizations.

8. Employment of Others. The District may from time to time request that the Consultant arrange for the services of others. All costs to the Consultant for those services will be paid by District, but in no event shall the Consultant employ others without the prior authorization of District.

STOCKTON EAST WATER DISTRICT

By: \_\_\_\_\_

**DRAFT**  
Thomas McGurk, President  
Stockton East Water District  
P O Box 5157  
Stockton CA 95205-0157  
(209) 948-0333

Attest: \_\_\_\_\_

**DRAFT**  
Scot A. Moody  
Secretary of the Board

By: \_\_\_\_\_

**DRAFT**  
Anthony M. Barkett, Consultant  
Law Office of Anthony M. Barkett  
119 East Weber Avenue  
Stockton CA 95202  
(209) 609-7745

## **BUSINESS CONSULTANT AGREEMENT**

This Business Consultant Agreement (Agreement) is entered into this 1<sup>st</sup> day of October 2017 by and between STOCKTON EAST WATER DISTRICT (District) and DOYCE BOESCH, (Consultant).

1. Consultation Services. District hereby employs Consultant to perform the following services in accordance with the terms and conditions set forth in this Agreement:

a. The Consultant will consult with the officers and employees of District concerning matters for which District seeks federal funding and/or support, or needs federal legislation.

b. Consultant will represent District's interests before federal governmental agencies, elected representatives, regulatory agencies, and trade associations and public affairs groups with emphasis on District's needs in the water area.

2. Terms of Agreement. This Agreement is effective as of October 1, 2017 and shall continue for a period of six months from the effective date, through March 31, 2018. Either party may cancel this agreement on thirty (30) day notice to the other party in writing, by certified mail or personal delivery.

3. Time Devoted by Consultant. It is anticipated the consultant will spend approximately 8 hours per week in fulfilling its obligations under this contract. The particular amount of time may vary from day to day or week to week. However, the consultant shall devote a minimum of 4 days per month to its duties in accordance with this agreement.

4. Place Where Services Will Be Rendered. The Consultant will perform most services in accordance with this contract at its place of business at 1120 G Street NW, Suite 1000, Washington DC 20005, as well as on the telephone, via internet and email, and at such other places as designated by the District to perform these services in accordance with this Agreement.

5. Payment to Consultant. The Consultant will be paid at the rate of Seven-Thousand Dollars (\$7,000.00) per month for work performed in accordance with this Agreement, and regardless of the amount of time spent in accordance with this Agreement. The Consultant will submit a statement for services rendered, and the District will pay the Consultant the amounts due within ten (10) days of receipt.

6. Independent Contractor. The parties agree that the Consultant will act as an independent contractor in the performance of its duties under this Agreement.

Accordingly, the Consultant shall be responsible for payment of all taxes including federal, state and local taxes arising out of the Consultant's activities in accordance with this Agreement, including by way of illustration but not limitation, Federal and State income tax, Social Security tax, Unemployment Insurance taxes, and any other taxes or business license fee as required.

7. Confidential Information. The Consultant agrees that any information received by the Consultant during any furtherance of the Consultant's obligations in accordance with this Agreement, that concerns the affairs of the District will be treated by the Consultant in full confidence and will not be revealed to any other persons, firms or organizations.

8. Employment of Others. The District may from time to time request that the Consultant arrange for the services of others. All costs to the Consultant for those services will be paid by District, but in no event shall the Consultant employ others without the prior authorization of District.

STOCKTON EAST WATER DISTRICT

**DRAFT**

By: \_\_\_\_\_

Thomas McGurk, President  
Stockton East Water District  
PO Box 5157  
Stockton CA 95205-0157  
(209) 948-0333

**DRAFT**

Attest: \_\_\_\_\_

Scot A. Moody  
Secretary of the Board

**DRAFT**

By: \_\_\_\_\_

Doyce Boesch, Consultant  
1120 G Street NW, Suite 1000  
Washington DC 20005  
(202) 731-9995

# Delta Coalition

Monday, September 11, 2017  
8:30 a.m.

San Joaquin Council of Government – Board Conference Room  
555 E. Weber Avenue

**PARKING:** For your convenience, parking is available at the SJCOG Regional Center off of Channel Street – Marked “Visitor” on the east side of the parking lot. There is additional parking available at Public Parking Lot K, located on American Street, just south of Weber Avenue. **If you use street parking, please be aware of the metered parking time limitations.**

To join the audio conference only

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Call-in toll number (US/Canada): 1-650-479-3208  
Access code: 802 675 188

## AGENDA

- 1) Welcome and Introductions
- 2) Approve Minutes: July 10, 2017
- 3) Update on Delta Plan Litigation  
John Luebberke, City of Stockton
- 4) Update on WaterFix  
Kris Balaji, SJC Public Works; Fritz Buchman, SJC Public Works
- 5) Delta Counties Coalition Outreach - Santa Clara Valley Water District Meeting  
Kris Balaji, SJC Public Works; Fritz Buchman, SJC Public Works
- 6) Information / Action
- 7) Other Discussions / Communications
- 8) Next Meeting – Wednesday, October 11, 2017



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# Eastern Water Alliance

Post Office Box 5157

Stockton, CA 95205

*An Alliance of Water Districts, Central San Joaquin Water Conservation District, North San Joaquin Water Conservation District, and Stockton East Water District, located over the critically overdrafted Eastern San Joaquin County Groundwater Basin*

## NOTICE OF MEETING

Notice is hereby given that a meeting of the Board of Directors of the Eastern Water Alliance will be held at Noon on Monday, September 11, 2017 at Stockton East Water District, 6767 East Main Street, Stockton, California

- 1) Call to Order
- 2) Roll Call
- 3) Public Comment
- 4) February 3, 2017 Minutes
- 5) Demonstration Recharge Extraction and Aquifer Management (DREAM) Project
- 6) Director Reports
- 7) Agenda Planning for Next Meeting
- 8) Adjournment

### DIRECTORS

Richard Atkins  
Division 1

Andrew Watkins  
Division 2

Alvin Cortopassi  
Division 3

Melvin Panizza  
Vice President  
Division 4

Paul Sanguinetti  
Division 5

Loralee McGaughey  
Division 6

Thomas McGurk  
President  
Division 7

### STAFF

Scott A. Moody  
General Manager

Michael D. Johnson  
Assistant General Manager

### LEGAL COUNSEL

Jeanne M. Zolezzi  
General Counsel

Phone 209-948-0333  
Fax 209-948-0423

E mail [sewd@sewd.net](mailto:sewd@sewd.net)

6767 East Main Street  
Stockton, CA 95215

Post Office Box 5157  
Stockton, CA 95205

### Certification of Posting

I hereby certify that on September 1, 2017 I posted a copy of the foregoing agenda in the outside display case at the District Office, 6767 East Main Street, Stockton, California, said time being at least 72 hours in advance of the meeting of the Board of Directors of the Eastern Water Alliance (Government Code Section 54954.2). Executed at Stockton, California on September 1, 2017.



Kristin Carido, Administrative Services Manager  
Stockton East Water District

**Assistance for the Disabled:** If you are disabled in any way and need accommodation to participate in the meeting, please call Kristin Carido, Administrative Services Manager (209) 948-0333 for assistance so the necessary arrangements can be made.

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<b>Weekly Water Report</b>		
	As of: Sept. 04, 2017	As of: Sept. 11, 2017
<b>New Hogan (NHG) TOC</b>	<b>317,100</b>	<b>AF</b>
Storage:	208,306	AF
Net Storage Change:	-3,191	AF
Inflow:	27	CFS
Release:	186	CFS
<b>New Melones (NML) Allocation</b>	<b>75,000</b>	<b>AF</b>
Storage:	2,038,744	AF
Net Storage change:	-10,538	AF
Inflow:	1,551	CFS
Release:	2,432	CFS
<b>Source: CDEC Daily Reports</b>		

<b>Goodwin Diversion (GDW)</b>		
Inflow (Tulloch Dam):	2,429	CFS
Release to Stanislaus River (S-98):	1,001	CFS
Release to OID (JT Main):	739	CFS
Release to SSJID (SO Main):	308	CFS
Release to SEWD:	<u>159</u>	CFS
Total Release	2,207	CFS
<b>Source: Tri-Dam Operations Daily Report</b>		
<b>Farmington Dam (FRM)</b>		
Diverted to SEWD:	76	CFS
Diverted to CSJWCD:	67	CFS
<b>Source: USACE WCDS Hourly Report</b>		

<b>Surface Water Used</b>		
Irrigators on New Hogan:	13	
Irrigators on New Melones:	3	
DJWWTP Production:	33	MGD
North Stockton:	0	MGD
South Stockton:	4	MGD
Cal Water:	29	MGD
City of Stockton DWSP Production:	24	MGD

<b>District Ground Water Extraction</b>		
74-01	0	GPM
74-02	0	GPM
North	0	GPM
South	0	GPM
Extraction Well # 1	<u>0</u>	GPM
Total Well Water Extraction	<b>0</b>	<b>GPM</b>

**Note: All flow data reported here is preliminary and subject to revision.**

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Warden's & Never Boring  
*present*  
STOCKTON CHAMBER OF COMMERCE  
**SEPTEMBER MIXER**

Join us at  
Waterfront Warehouse  
445 W. Weber Ave.  
Ste. 124A  
September 7th, 2017  
5:15 - 7:15 pm

Join us for networking,  
food, drinks, raffle prizes,  
and fun!!

Don't forget to  
bring your  
business cards!

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For information on sending an email to the members of the Greater Stockton Chamber of Commerce please contact Lorice Harrison: 209-292-8427 or [lorice@stocktonchamber.org](mailto:lorice@stocktonchamber.org)



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**STOCKTON  
EAST WATER  
DISTRICT**

PROVIDING SERVICE SINCE 1948  
www.sewd.net

DIRECTORS

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Division 1

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Division 2

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Assistant General Manager

LEGAL COUNSEL

Jeanne M. Zolezzi  
General Counsel

Phone 209-948-0333  
Fax 209-948-0423

E-mail sewd@sewd.net

6767 East Main Street  
Stockton, CA 95215

Post Office Box 5157  
Stockton, CA 95205

September 7, 2017

Ms. Mitra Emami  
Operations Branch Chief  
Central Valley Flood Protection Board  
3310 El Camino Avenue, Room 151  
Sacramento, CA 95821-6308

Email: Mitra.Emami@water.ca.gov

Subject: Mormon Slough Irrigation Dams – Bellota Dam, Permits # 5597-A

Dear Ms. Emami:

The Central Valley Flood Protection Board (Board) permits for the above referenced dam requires removal prior to October 10. The current hot weather and extended growth season have caused a demand for an extended irrigation season. The District requests permission to delay the removal of the dam until October 27, 2017, weather permitting.

As of August 21, 2017, New Hogan Reservoir, which protects Bellota from flood flows, is currently storing about 214,783 acre-feet. The present allowable (flood control) storage is 317,100 acre-feet. As of November 1, 2017 Top of Conservation (TOC) will be 233,100 acre-feet. Storms sufficient to create an inflow of 20,000 acre-feet between today and October 27, 2017, are unlikely. In the event of such a storm(s), the District has the ability to remove this dam in a timely manner to assure no interference with any flood operations.

The District understands it is responsible for levee and floodway damage resulting from the Board's approval of this variance, and we further understand the Board reserves the right to revoke this variance based on change in weather and New Hogan Reservoir conditions.

If you have further questions, please call Cathy Lee, District Engineer or myself at (209) 948-0333. Thank you for your timely consideration of this request.

Sincerely,

Scot A. Moody  
General Manager



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