

CARMEL AREA WASTEWATER DISTRICT
California

Annual Financial Report

**Year Ended
June 30, 2016**

CARMEL AREA WASTEWATER DISTRICT

Table of Contents

| | |
|--|-------|
| INDEPENDENT AUDITOR'S REPORT | 1-2 |
| MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited) | |
| Required Supplementary Information, as prepared by management | 3-11 |
| BASIC FINANCIAL STATEMENTS | |
| Statements of Net Position | 12-13 |
| Statements of Revenue, Expenses, and Change in Net Position | 14 |
| Statements of Cash Flows..... | 15-16 |
| NOTES TO FINANCIAL STATEMENTS | 17-38 |
| REQUIRED SUPPLEMENTARY INFORMATION | |
| Schedules of Changes in the Net Pension Liability and Related Ratios, and Schedules of Contributions: | |
| Cost-Sharing Multiple-Employer Defined Benefit Pension Plan | 39-40 |
| Single Employer Defined Benefit Pension Plan | 41-42 |
| OTHER SUPPLEMENTARY INFORMATION | |
| Schedule I: Revenue and Expenses - Budget to Actual | 43 |
| Schedule II: Operating Expenses | 44 |
| Schedule III: Operating Expenses - Budget to Actual - Collection..... | 45 |
| Schedule IV: Operating Expenses - Budget to Actual - Treatment & Disposal | 46 |
| Schedule V: Operating Expenses - Budget to Actual - General and Administrative | 47 |
| Schedule VI: Operating Expenses - Budget to Actual - Reclamation Project | 48 |
| Schedule VII: Insurance Coverage..... | 49 |

MARCELLO & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

2701 Cottage Way, Suite 30 / Sacramento, California 95825

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Carmel Area Wastewater District
Carmel, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Carmel Area Wastewater District, Carmel, California (the District) as of and for the year ended June 30, 2016, and the notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents. The prior year comparative information has been derived from the District's 2015 financial statements and, in our report dated October 2, 2015, we expressed an unqualified opinion on the financial statements of the business-type activities.

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 upon our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purposes 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 estimates made by management, as well as evaluating the overall financial statement presentation.

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

Board of Directors and Members
Carmel Area Wastewater District
Carmel, California

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Carmel Area Wastewater District, as of June 30, 2016, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Carmel Area Wastewater District's financial statements. The budgetary comparison information, and summary of net position supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Marcello & Company

Certified Public Accountants
Sacramento, California
September 30, 2016

MANAGEMENT'S DISCUSSION & ANALYSIS

As Prepared by Management

(unaudited)

Carmel Area Wastewater District
Management's Discussion and Analysis
June 30, 2016

The following discussion and analysis is supplementary information required by the Governmental Accounting Standards Board (GASB), and is intended to provide an easily readable explanation of the information provided in the attached basic financial statements for the fiscal year ended June 30, 2016. We encourage readers to read the information presented here in conjunction with our financial statements, which follow this narrative.

Financial Highlights

Key financial highlights for 2015-16 are as follows:

- Total operating revenues increased 5.8% or \$428,514 over the prior year. Sewer user fees, the District's primary source of operating revenue, increased 12.3% over the prior year. The rate model projected an 11.9% increase in residential rates – overwhelmingly the District's largest user category. The increases are reflective of the District's efforts to fund its capital improvement and rehabilitation efforts. Pebble Beach Community Services District (PBCSD) treatment fees decreased by 10.8% over prior year, or 14.6% over budget. Flow from Del Monte Forest decreased to 31.1% compared with 31.4% in 2014-15. Reimbursement from the Reclamation Project for O&M expenses was under budget 16.6% as staff spent more time on Phase II CAWD improvements than anticipated.
- Total non-operating revenues increased 101.7% over the prior year due to a combination of line items. Property tax revenue was 17.3% over budget, Investment income was 213.4% over budget, and Connection fees were nearly 20 times budget. The difference between actual and budget was due to the failure to complete all budgeted capital projects to be reimbursed by Pebble Beach Community Services District. Only 69.6% of the capital reimbursement projects were completed due to construction timing issues.
- Total operating expenses (excluding depreciation) increased 21.8% over the prior year reflecting a considerable focus and greater resources devoted to the District's rehabilitation efforts in both the Collection system and Treatment Plant. The balance of the increase was primarily related to negotiated salary increases, medical benefit increases, and an increased focus on rehabilitating facilities.
- Total Current Assets increased 0.4% over the prior year primarily even with the expenditures made on capital improvements. Even so, the District is continuing to plan for the future and the anticipated costs of improvements.
- Total Current Liabilities increased 241% over the prior year primarily due to an increase in Accounts Payable. Trade payables are up – as expected, we're in the process of working through a nearly \$15M capital project. Compensated Absences have declined because employees negotiated away the payout of accrued sick time in favor of a payoff of the CalPERS Unfunded Accrued Liability.

Carmel Area Wastewater District
Management's Discussion and Analysis
 June 30, 2016

Overview of the Financial Statements

This annual report consists of three parts – management's discussion and analysis (*this section*), the basic financial statements, and other supplementary information. The Financial Statements include Notes which explain in detail some of the information included in the basic financial statements.

Required Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements consist of three components:

- The *Statements of Net Position* present information on all of the District's assets and liabilities, with the difference between the two reported as net position.
- The *Statements of Revenue, Expenses and Changes in Net Position* present information showing how the District's net position changed during the two most recent fiscal years.
- The *Statements of Cash Flows* present information showing how the District's cash changed during the two most recent fiscal years. It shows the sources and uses of cash.

The financial statements also include *Notes* that explain some of the information in the financial statements and provide more detailed information. They are followed by a section of *Supplementary Information* that further explains and supports information in the financial statements.

The District's financial statements utilize the full accrual basis of accounting whereby revenue is recognized when it is earned and expenses are recognized as they are incurred. The District's accounting methods follow accounting principles generally accepted in the United States and as applied to governmental enterprise funds.

Financial Analysis of the District

The Statements of Net Position and the Statements of Revenue, Expenses and Changes in Net Position provide an indication of the District's financial condition. The District's net position reflects the difference between assets and liabilities. An increase in net position over time typically indicates an improvement in financial condition.

A summary of net position is presented below:

| | 2016 | 2015 | % | 2014 | % |
|--|----------------------|----------------------|---------|----------------------|--------|
| | | | Change | | Change |
| Assets | | | | | |
| Current Assets | \$ 25,348,793 | \$ 25,234,336 | 0.5% | \$ 23,462,550 | 7.6% |
| Capital Assets net of depreciation | 43,608,250 | 38,129,524 | 14.4% | 38,388,228 | -0.7% |
| Bond issue costs | - | 43,328 | -100.0% | 48,186 | -10.1% |
| Total Assets | <u>\$ 68,957,043</u> | <u>\$ 63,407,188</u> | 8.8% | <u>\$ 61,898,964</u> | 2.4% |
| Deferred Outflows of Resources | <u>1,021,125</u> | <u>877,000</u> | 16.4% | <u>-</u> | n/a |
| Total Assets & Deferred Outflows of Resources | <u>\$ 69,978,168</u> | <u>\$ 64,284,188</u> | 8.9% | <u>\$ 61,898,964</u> | 3.9% |

Carmel Area Wastewater District
Management's Discussion and Analysis
June 30, 2016

Liabilities

| | | | | | |
|----------------------------|---------------------|---------------------|--------|---------------------|--------|
| Current Liabilities | 1,415,553 | 587,226 | 141.1% | 531,934 | 10.4% |
| Long-term vac/sick payable | 127,516 | 337,126 | -62.2% | 460,599 | -26.8% |
| Net pension liability | (515,387) | (22,865) | 2154% | - | n/a |
| Long-term debt | 1,385,000 | 1,550,487 | -10.7% | 1,683,345 | -7.9% |
| Total Liabilities | <u>\$ 2,412,682</u> | <u>\$ 2,451,974</u> | -1.6% | <u>\$ 2,675,878</u> | -8.4% |

| | | | | | |
|-------------------------------|-----------|-------------|---------|---|-----|
| Deferred Inflows of Resources | 1,251,145 | (1,080,933) | -215.7% | - | n/a |
|-------------------------------|-----------|-------------|---------|---|-----|

| | | | | | |
|--|---------------------|---------------------|--------|---------------------|--------|
| Total Liabilities & Deferred Inflow of Resource | <u>\$ 3,663,827</u> | <u>\$ 1,371,041</u> | 167.2% | <u>\$ 2,675,878</u> | -48.8% |
|--|---------------------|---------------------|--------|---------------------|--------|

Net Position

| | | | | | |
|----------------------------------|----------------------|----------------------|-------|----------------------|-------|
| Net Investment in Capital Assets | 42,083,250 | 36,492,365 | 15.3% | 36,620,293 | -0.3% |
| Restricted | - | - | n/a | - | n/a |
| Unrestricted | 24,231,091 | 26,420,782 | -8.3% | 22,602,793 | 16.9% |
| Total Net Position | <u>\$ 66,314,341</u> | <u>\$ 62,913,147</u> | 5.4% | <u>\$ 59,223,086</u> | 6.2% |

| | | | | | |
|---|----------------------|----------------------|------|----------------------|------|
| Total Liabilities & Net Position | <u>\$ 69,978,168</u> | <u>\$ 64,284,188</u> | 8.9% | <u>\$ 61,898,964</u> | 3.9% |
|---|----------------------|----------------------|------|----------------------|------|

The District's cash balances are segregated by purpose, as approved by the Board, as follows:

| <u>Designation of Cash Balances</u> | <u>Amount</u> |
|-------------------------------------|----------------------|
| Capital Reserves | \$ 5,645,636 |
| Current Year O&M (2015-16) | 11,981,917 |
| Current Year Capital (2015-16) | 4,385,498 |
| Rate Stabilization Fund | 644,682 |
| LAIF Investment Fund | 1,111,479 |
| Compensated Accruals Fund | 449,502 |
| Total | <u>\$ 24,218,714</u> |

After formally accepting the asset management plan prepared for the Treatment plant in April 2013 the District moved forward with implementation of the first phase. The original plan estimated the District will need to spend \$30M over the next fifteen years on plant rehabilitation – this is exclusive of engineering costs and construction management. The District has subsequently carried the long term plan out another two years and made modifications as additional information became available and the total has increased to \$39M. The District retained Kennedy/Jenks Consultants to work on Phase I of the plan as Construction Manager. The lowest responsible construction bid was awarded to Anderson Pacific Engineers.

Carmel Area Wastewater District
Management's Discussion and Analysis
June 30, 2016

The current long term capital plan is for the Treatment Plant only – staff is currently working on producing a similar plan for the Collection System. We currently maintain a five year plan, but are working on extending it to 15 years to meet the requirements of the Regional Board. The State General Waste Discharge Requirements for Sanitary Sewer Systems (Order No. 2006-0003) requires that we establish a proactive approach to ensure that a system-wide operation, maintenance, and management plan is in place to reduce the number and frequency of sanitary sewer overflows. We know that some of our underground assets are nearing the end of their lifespan and we are also examining capacity issues throughout the system.

The end result of the District's long term capital planning is that we are committed to spending, at a minimum, \$700K per year in Collections and we are committed to spending an estimated \$30M+ at the Treatment Plant over the next 15 years. The District's initial plan was to fund the entire Long Term Capital Improvement Plan via pay-as-you-go. The Board felt that rather than burden future ratepayers it was appropriate to assess current users and therefore authorized the plan to ramp up user fees, on average, 10% per year until the target funding level was met. Currently we are examining our long range cash flow projections and it is evident that we will have to make a decision about potential borrowing if we are to complete all planned rehabilitation work. At the Treatment Plant we are tentatively planning on three major rehabilitation projects – right now we've started construction on Phase I. In the Collection Department we are attempting to first update our planning documents and then we will likely commit to one major line replacement project per year. It is an ambitious plan to be sure.

Phase I is of our Capital Rehabilitation at the plant is front-loaded because of the critical systems slated for replacement and rehab. Part of our decision going forward will be how we space the timing of Phase II and Phase III. At this time, Phase I includes:

- Blower system modifications
- Return Activated Sludge/Waste Activated Sludge pumping station
- Sodium Hypochlorite/Sodium Bisulfite facility
- Decommission of chlorine gas disinfectant system
- Facility piping
- Dissolved Air Flotation (DAF) thickener rehabilitation
- New 450,000 gallon Digester and Digester control building
- Replacement of Waste Gas Burner
- Dewatering system modifications and installation of rotary screw press
- Significant electrical power modifications
- Potable water pump system modifications
- Utility water pump system rehabilitation
- Storm water pump station construction

The Phase I project design was completed by Kennedy/Jenks Consultants. The District has also contracted with Kennedy/Jenks Consultants to provide construction management and engineering services during design for \$1.9M. The construction contract bid was awarded at \$13.9M to Anderson Pacific Engineers who were on site and ready to start work in July 2015.

Carmel Area Wastewater District
Management's Discussion and Analysis
June 30, 2016

The Phase I project is now nearly half complete. We believe it will be fully complete in early fall of 2017 and have already commenced planning for Phase II.

A summary of Changes in Net Position is presented below:

| | <u>2016</u> | <u>2015</u> | % Change | <u>2014</u> | % Change |
|-------------------------------------|---------------|---------------|-------------|---------------|-------------|
| <u>Changes in Net Position:</u> | | | | | |
| Operating revenue | \$ 7,732,237 | \$ 7,303,723 | 5.9% | \$ 6,465,750 | 13.0% |
| Nonoperating revenue | 5,233,349 | 2,593,979 | 101.7% | 2,361,583 | 9.8% |
| total revenue | 12,965,586 | 9,897,702 | 31.0% | 8,827,333 | 12.1% |
| Operating expenses | 7,087,189 | 5,817,629 | 21.8% | 5,655,466 | 2.9% |
| Nonoperating expenses | 84,453 | 93,400 | -9.6% | 99,572 | -6.2% |
| Depreciation expense | 2,392,750 | 2,452,085 | -2.4% | 2,437,836 | 0.6% |
| total expenses | 9,564,392 | 8,363,114 | 14.4% | 8,192,874 | 2.1% |
| Income before Capital Contributions | 3,401,194 | 1,534,588 | 121.6% | 634,459 | 141.9% |
| Capital Contributions | - | 174,675 | -100.0% | 101,712 | 71.7% |
| Change in net position | 3,401,194 | 1,709,263 | 99.0% | 736,171 | 132.2% |
| Net position, beginning | \$ 62,913,147 | \$ 59,223,086 | 6.2% | \$ 58,486,915 | 1.3% |
| Restatements – GASB 68 | - | 1,980,798 | -100.0% | - | |
| Net position, ending | \$ 66,314,341 | \$ 62,913,147 | 5.4% | \$ 59,223,086 | 6.2% |

The District's strategy in regards to rate-setting has consistently been to cover all operating expenses with operating revenue and to utilize non-operating revenue (i.e. property taxes and interest revenues) to cover capital and other non-operating expenses. The District does not factor depreciation into its rate structure. However, since 2012-13 we have entered an amount for Capital Replacement gradually building to \$1M per year in 2016-17. This addition still does not cover the total replacement cost of our capital assets, nor does it cover depreciation, therefore we will likely continue to increase it until we reach the appropriate point that supports the replacement of our capital assets.

The District's net position increased by \$3.4M or 5.4% in large measure as a result of implementation of Governmental Accounting Standards Board Statement No. 68 – Accounting and Financial Reporting of Pensions and Operations. The District had a significant swing in pension expense – this “swing” roughly equals the movement in the stock and equity markets, albeit one to two years after each event happens. The market was quite healthy in 2013 and 2014 and then there was a slight depression in 2015 and 2016. There is a one-year allowable delay in reporting the net pension liability. The deferred outflows are like a prepaid expense and the deferred inflows are similar to deferred investment income generated in 2015-16. The District's assets exceeded liabilities by \$66M as of June 30, 2016. Net position, over time, may serve as a useful indicator of an entity's financial position.

Carmel Area Wastewater District
Management's Discussion and Analysis
June 30, 2016

The District's operations are strong enough to support our plan to "pay-as-you-go" for Phase I of our Treatment Plant Rehabilitation. We think the District's position is strong enough to support "pay-as-you-go" for the \$8-9M Phase II rehabilitation of our Treatment Plant.

Capital Assets Activity

In addition to the major Long Term Capital Improvement Plan (CIP) project under design by Kennedy/Jenks Engineers there are multiple in-house projects the District is managing.

2015-16 significant asset additions include:

| | |
|--------------------------------------|------------|
| • Locker Room Building | \$ 634,628 |
| • Interim Digester Improvements | \$ 368,067 |
| • Collections Water Truck | \$ 209,990 |
| • Secondary Clarifier Rehabilitation | \$ 192,919 |
| • Laboratory Power Line Conditioning | \$ 58,835 |
| • Headworks Grinder Rehabilitation | \$ 32,283 |

Debt Service Activity

In 2004, the District entered into an agreement with the Highlands Inn, the Tickle Pink Inn and the Highlands Sanitary Association to manage and obtain the necessary financing for them to construct a pipeline and connect to the District's treatment and collection facilities. The District obtained \$3,000,000 in the form of a 20 year bond as part of a pooled financing arrangement with the California Statewide Communities Development Authority Water & Wastewater Revenue Bonds, Series 2004A. In 2016 the District made a principal payment on the bond of \$130,000 and \$82,962 in interest. Prior year 2015 principal payment was \$125,000 with \$89,337 in interest. The Highlands Project bond is the District's only outstanding bond obligation; the District had no debt service obligations prior to 2004.

All debt service interest and principal payments are being repaid by the parties that benefit directly from the obligation. The Highlands Project Bond obligation is fully reimbursed by the Highlands Inn, the Tickle Pink Inn, and the Highlands Sanitary Association. The Ion Chromatograph lease obligation was reimbursed monthly from the CAWD/PBCSD Reclamation Project.

Budget Highlights/Variances

An annual budget is adopted by the CAWD Board of Directors each spring for the subsequent fiscal year. Budget information is reported to the Board and adjustments to the budget may only be made by resolution of the Board.

2015-16 Major variances can be described as follows:

- Sewer service fees were 5.5% or \$319K over budget – the rate model provided for an additional \$1M to be allocated for future capital expenses.

Carmel Area Wastewater District
Management's Discussion and Analysis
June 30, 2016

- PBCSD treatment fees were 14.6% or \$146K over budget because of the increase in Treatment Plant expenses for continued rehabilitation of the plant. Flow was slightly below 1/3 of total inflows at 31.1%.
- Total Operating revenues were 5.1% higher than budget, even accounting for Reclamation reimbursements that were 16.6% under budget. More labor was expended on CAWD's rehabilitation than originally anticipated.
- Collections budget was 11.9% under budget, the primary reasons being that labor costs were 13.8% less than expected, truck and auto expenses were 40.7% under budget, and repairs were 35.3% under budget. There were categories that exceeded budget, most notably contract services 25.6% over budget or \$36K.
- The Treatment Plant was 12.0% under budget overall. The most significant budget line item was labor costs at 24.2% under budget due to the fact that the District took six months to recruit and hire a new Operations Superintendent even though the budget assumed the position fully staffed. Consulting engineering was 80.4% or \$100K under budget as staff concentrated on tasks at hand and Phase I. Finally, repairs and maintenance around the plant was also 27.9% or \$145K under budget even in the face of considerable efforts to make progress and get in from of maintenance efforts.
- General & Administrative Expenses were 33.1% under budget. As with other departments salaries was a large line item at 20.2% under budget. The budget assumed step increases and it also took a bit longer to recruit a new Administrative Services Coordinator.
- Property tax revenue was 17.3% over budget or \$256K. The budget employed a conservative factor of 1.5%.
- Investment revenue was 213.4% over budget or \$128K. While interest rates have remained very low, we simply did not pay out funds on Phase I as quickly as anticipated. Additionally, quick turnaround time on capital reimbursement requests provided the opportunity to earn additional investment revenue before construction invoices were paid.
- PBCSD capital reimbursements were 30.3% less than anticipated, however as with CAWD expenditures, the capital payments to Anderson Pacific were slower to roll out than originally thought.

Other Significant Matters

- The District negotiated a two year employee agreement in 2014-15 for a 2.6% COLA each year and a 1% increase in the CalPERS Classic Employee Contribution for each year.
- As part of the 2014 package, Employees agreed to split negotiations into a two part process. The COLA will be negotiated in the fall for the next period and there was an agreement to re-open negotiations each October/November for the purpose of Health Insurance benefits.

Carmel Area Wastewater District
Management's Discussion and Analysis
June 30, 2016

- The District changed its health insurance plan company by joining the Public Agency Coalition Joint Powers Authority (PACE). The broker, Keenan, has represented school districts for many years and established an opening for other public entities two years ago. The insurance is under the Blue Cross umbrella. In our efforts to keep costs under control we left Blue Shield–Small Group for the JPA. Insurance rates for January 2017 increased only 3%.
- In April 2015 the District agreed to pay-off its CalPERS Unfunded Accrued Liability in the amount of \$560,720. As part of its negotiations with employees, it was agreed that the option to cash out the first 600 sick hours would disappear but that employees would hold on to the right to convert sick time to CalPERS service credit. This eliminated a significant open liability to payout sick time when employees separate from service.

Economic Factors and Next Year's Budget and Rates

The financial condition of the District remains remarkably solid considering the scope of our projected rehabilitation projects. Over 79.1% of the District's operating revenues are derived from wastewater user fees, which are not subject to economic volatility. In addition, the District receives an additional 14.8% of its revenue by contract from Pebble Beach Community Services District for the treatment of its sewage. That contract has been in effect since 1969 and is not anticipated to change significantly.

The District's design of Phase I – Long Term Capital Improvement Plan started construction July 1, 2015 and was projected to extend 700 days. At year end the project had expended 48% of the original contract time of 700 days and total project costs expended (not including retention) as 42%. Change orders have been extraordinarily low at only 0.76% of the bid amount or \$105K. As of this time, we feel that the contractor, Anderson Pacific, is behind schedule and will likely exceed the contract date. Anderson Pacific is already attempting to contest the time constraints. On our side we are attempting to mitigate the impacts of being over schedule by extending our Construction Manager as long as we are able under the current contract and potentially moving forward on Phase II work. We acknowledge that arbitration is in neither party's interest.

We continue to work on improvements in the Collection System. We had planned on completing a 20 year long term plan by spring of 2016 and were unable to meet that deadline. We are still looking at the balance of this year as a potential but we are also examining the feasibility of outside assistance. The Carmel Meadows gravity line replacement project is under design as is the Carmel Lagoon force main replacement project. We are currently working with various regulatory agencies on securing the necessary permitting and also with the County of Monterey because we feel that their Carmel River Free Project will have an impact on the Carmel Lagoon force main – under environmental rules they should be responsible for mitigation.

Our initial plan was to increase the capital component of the rate model by \$250K each year over the next five years. We deferred any increase in 2015-16, but went back to the original plan in 2016-17. We remain optimistic that we can pay for a Phase II with cash. Cash in the bank remains close to the same level as it was in June 2015 at \$24M even after payment of 42% of contractor costs. Liabilities have increased nearly 141.5% primarily due to an increase in accounts payable trade. We have completed an in-house cash flow projection and remain cautiously optimistic although realistic about the increase in contracting costs over the last 24 months.

Carmel Area Wastewater District
Management's Discussion and Analysis
June 30, 2016

The District has significant infrastructure running under its easement in Hatton Canyon that it will need to protect. In the past, State Parks has managed the roadway, but now due to its own budgetary pressures State Parks has indicated that the District will need to take responsibility. In the fall of 2016 we did pay for a box scraper to even out the roadway so that we could get in and clean the lines; however, the first rain of the season has already damaged the roadway again. We believe that ultimately it make take as much as \$500K to repair the roadway and are therefore continuing to attempt negotiations with State Parks and to look to other local agencies for possible help with funding.

In addition to the Long Term Capital Improvement Plan at the treatment plant we anticipate challenges in the Carmel Lagoon area that surrounds the treatment plant. The County of Monterey has proposed an Environmental Protection Barrier to protect the areas known as Carmel Point and the 4th Estate and is slated to release an Environmental Impact Report (EIR) in December 2016. CAWD believes that any barrier will have a negative impact on its facilities and has employed a hydrology firm to examine potential flooding. We have also engaged outside legal counsel to assist us in responding to the EIR. We believe that ultimately we may have to negotiate with the County regarding ongoing sandbar management in the Lagoon to protect our facility. The County proposed a Causeway Project under Hwy 1 that could have an impact on our outfall pipe which runs across the Lagoon. We are concerned that if there is enough water moving down the Lagoon channel, the velocity, especially during a storm event, could cause our pipe to move off its foundation – therefore given the current condition of the pipe we are currently designing an alternative that will go under the lagoon.

Requests for Information

This financial report is designed to provide an overview of the District's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to James Grover, Principal Accountant, P.O. Box 221528, Carmel, CA 93922 or grover@cawd.org.

BASIC FINANCIAL STATEMENTS

CARMEL AREA WASTEWATER DISTRICT
Statements of Net Position
June 30, 2016 and 2015

Page 1 of 2

*for comparative
purposes only*

| Assets | 2016 | 2015 |
|---|---------------|---------------|
| Current Assets | | |
| Cash and investments | \$ 24,338,136 | \$ 24,150,206 |
| Accounts receivable | 150,664 | 10,927 |
| Accounts receivable - affiliates | 859,993 | 1,035,297 |
| Prepaid expenses | - | 37,906 |
| Total current assets | 25,348,793 | 25,234,336 |
| Noncurrent Assets | | |
| Capital assets not being depreciated | 9,278,781 | 3,299,578 |
| Capital assets, net of depreciation | 34,329,469 | 34,829,946 |
| Total noncurrent assets | 43,608,250 | 38,129,524 |
| Other Assets | | |
| Bond issuance costs, net of amortization | - | 43,328 |
| Total other assets | - | 43,328 |
| Total assets | 68,957,043 | 63,407,188 |
| Deferred Outflows of Resources | | |
| Deferred pensions | 1,021,125 | 877,000 |
| Total assets and deferred outflows of resources | \$ 69,978,168 | \$ 64,284,188 |

The accompanying notes are an integral part of these financial statements

CARMEL AREA WASTEWATER DISTRICT
Statements of Net Position
June 30, 2016 and 2015

Page 2 of 2

*for comparative
purposes only*

| Liabilities and Net Position | 2016 | <i>for comparative purposes only</i> 2015 |
|---|---------------|--|
| Current Liabilities | | |
| Accounts payable - trade | \$ 1,213,120 | \$ 323,297 |
| Accrued bond interest | 19,928 | 21,553 |
| Revenue bonds - current | 140,000 | 130,000 |
| Compensated absences - current | 42,505 | 112,376 |
| Total current liabilities | 1,415,553 | 587,226 |
| Noncurrent Liabilities | | |
| Amounts due in more than one year: | | |
| Revenue bonds payable | 1,385,000 | 1,525,000 |
| Compensated absences | 127,516 | 337,126 |
| Net pension liability (overfunded) | (515,387) | (22,865) |
| Bond issuance premium, net of amortization | - | 25,487 |
| Total noncurrent liabilities | 997,129 | 1,864,748 |
| Total liabilities | 2,412,682 | 2,451,974 |
| Deferred Inflows of Resources | | |
| Deferred pensions | 1,251,145 | (1,080,933) |
| Total liabilities and deferred inflows of resources | 3,663,827 | 1,371,041 |
| Net Position | | |
| Net investment in capital assets | 42,083,250 | 36,492,365 |
| Restricted | - | - |
| Unrestricted | 24,231,091 | 26,420,782 |
| Total net position | 66,314,341 | 62,913,147 |
| Total liabilities, deferred inflows, and net position | \$ 69,978,168 | \$ 64,284,188 |

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The accompanying notes are an integral part of these financial statements

CARMEL AREA WASTEWATER DISTRICT
Statements of Revenue, Expenses, and Change in Net Position
Years Ended June 30, 2016 and 2015

| | 2016 | <i>for comparative purposes only</i> 2015 |
|---|----------------------|--|
| Operating Revenue | | |
| Sewer service fees | \$ 6,120,062 | \$ 5,446,631 |
| Treatment fees, PBCSD | 1,146,109 | 1,285,641 |
| CAWD/PBCSD Reclamation Project reimbursements | 455,966 | 557,968 |
| Permits and inspection fees | 10,100 | 13,200 |
| Other | - | 283 |
| Total operating revenue | <u>7,732,237</u> | <u>7,303,723</u> |
| Operating Expenses | | |
| Sewage collection | 1,674,480 | 1,281,334 |
| Sewage treatment and disposal | 5,955,067 | 5,417,511 |
| General and administrative | 1,399,488 | 1,044,069 |
| CAWD/PBCSD Reclamation Project expenses | 450,904 | 526,800 |
| Total operating expenses | <u>9,479,939</u> | <u>8,269,714</u> |
| Operating income (loss) | <u>(1,747,702)</u> | <u>(965,991)</u> |
| Nonoperating Revenue (Expenses) | | |
| Property tax revenue | 1,736,624 | 1,621,571 |
| Investment earnings (loss) | 188,057 | 103,881 |
| Highlands Inn assessment revenue | 215,594 | 216,949 |
| Connection fees | 115,212 | 19,415 |
| PBSCD capital cost reimbursements | 2,271,411 | 532,506 |
| Reclamation Project capital cost reimbursements | 694,936 | - |
| Interest and fiscal expenses | (84,453) | (91,400) |
| Amortization of bond issuance costs | - | (4,859) |
| Amortization of bond premium | - | 2,859 |
| Other | 11,515 | 99,657 |
| Total nonoperating revenue (expenses) | <u>5,148,896</u> | <u>2,500,579</u> |
| Income (loss) before capital contributions | 3,401,194 | 1,534,588 |
| Capital contributions | <u>-</u> | <u>174,675</u> |
| Change in Net Position | 3,401,194 | 1,709,263 |
| Net Position - beginning | 62,913,147 | 59,223,086 |
| Prior period adjustment | - | 1,980,798 |
| Net Position - as restated | <u>62,913,147</u> | <u>61,203,884</u> |
| Net Position - end of year | <u>\$ 66,314,341</u> | <u>\$ 62,913,147</u> |

The accompanying notes are an integral part of these financial statements

CARMEL AREA WASTEWATER DISTRICT
Statements of Cash Flows
Years Ended June 30, 2016 and 2015

Page 1 of 2

*for comparative
purposes only*

Cash Flows Provided By (Used For):

| | 2016 | 2015 |
|---|---------------|---------------|
| Operating Activities | | |
| Cash received from customers | \$ 7,767,804 | \$ 6,978,985 |
| Cash payments for operating supplies | (1,755,099) | (2,167,603) |
| Cash payments for personnel costs | (2,988,411) | (3,690,783) |
| Net cash provided (used) | 3,024,294 | 1,120,599 |
| Noncapital Financing Activities | | |
| Property tax revenue | 1,736,624 | 1,621,571 |
| Highlands Inn assessment revenue | 215,594 | 216,949 |
| Net cash provided (used) | 1,952,218 | 1,838,520 |
| Capital and Related Financing Activities | | |
| Connection fees | 115,212 | 19,415 |
| Purchase of property and equipment | (4,875,793) | (1,486,200) |
| Principal paid on capital lease | - | (7,776) |
| Interest and fiscal expenses | (86,058) | (92,963) |
| Principal paid on revenue bonds | (130,000) | (125,000) |
| Other cash revenue | - | 99,657 |
| Net cash provided (used) | (4,976,639) | (1,592,867) |
| Investing Activities | | |
| Investment earnings (loss) | 188,057 | 103,881 |
| Net cash provided (used) | 188,057 | 103,881 |
| Increase (decrease) in cash | 187,930 | 1,470,133 |
| Cash and cash equivalents - beginning | 24,150,206 | 22,680,073 |
| Cash and cash equivalents - end of year | \$ 24,338,136 | \$ 24,150,206 |

Noncash investing and capital activities:

| | | |
|---|------|------------|
| Contribution of capital assets from affiliate | \$ - | \$ 174,675 |
|---|------|------------|

The accompanying notes are an integral part of these financial statements

CARMEL AREA WASTEWATER DISTRICT
Statements of Cash Flows
Years Ended June 30, 2016 and 2015

Page 2 of 2

*for comparative
purposes only*

| | 2016 | 2015 |
|---|----------------|--------------|
| Operating Activities Analysis | | |
| Operating Income (Loss) | \$ (1,747,702) | \$ (965,991) |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | |
| Add depreciation and amortization, noncash expenses | 2,392,750 | 2,452,085 |
| Add GASB 68 pension, noncash expense | 1,695,431 | - |
| Changes in current assets and liabilities: | | |
| (increase) decrease in receivables | (139,737) | (1,138) |
| (increase) decrease in affiliate receivables | 175,304 | (323,600) |
| (increase) decrease in prepaid expenses | 37,906 | 23,085 |
| increase (decrease) in trade payables | 889,823 | 196,369 |
| increase (decrease) in accrued payroll | - | (95,581) |
| increase (decrease) in compensated absences | (279,481) | (164,630) |
| Net cash provided (used) | \$ 3,024,294 | \$ 1,120,599 |

The accompanying notes are an integral part of these financial statements

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2016

The notes to the financial statements include a summary of significant accounting policies and other notes considered essential to fully disclose and fairly present the transactions and financial position of the District as follows:

- Note 1 - Defining the Reporting Entity
- Note 2 - Summary of Significant Accounting Policies
- Note 3 - CAWD/PBCSD Reclamation Project
- Note 4 - Cash and Investments
- Note 5 - Receivables
- Note 6 - Capital Assets
- Note 7 - Payables
- Note 8 - Deferred Compensation Plan
- Note 9 - Long-term Obligations
- Note 10 - Postemployment Benefits Other than Pensions
- Note 11 - Single Employer Defined Benefit Pension Plan
- Note 12 - Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
- Note 13 - Risk Management
- Note 14 - Subsequent Events
- Note 15 - Prior Period Adjustment
- Note 16 - New Pronouncements

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2016

Note 1 - Defining the Reporting Entity

Reporting Entity

The Carmel Area Wastewater District (the District), organized July 8, 1908, is governed under the provisions of the Sanitary District Act of 1923, Health and Safety Code, Section 6400 et seq., as amended. The function of the District is to provide, operate and maintain sewage collection, treatment, and disposal facilities for the properties included within its boundaries and for certain contracted adjacent properties, and supply reclaimed water to the Monterey Peninsula Water Management District.

The District's reporting entity includes all significant operation and revenue sources as determined under the criteria established by the Governmental Accounting Standards Board (GASB). Oversight responsibility is determined on the basis of selection of the governing board, designation of management, ability to significantly influence operations, accountability for fiscal matters, and the scope of public service. The District is exempt from federal income and state franchise taxes.

In March 1969, the District entered into an agreement with the Pebble Beach Community Services District (PBCSD) for treatment and disposal of sewage service delivered by PBCSD. It was anticipated that the contract would account for approximately one third of the capacity of the District's treatment plant. PBCSD began delivering sewage to the District in fiscal year 1970-71, and reimburses the District for one third of its operating treatment and disposal expenses plus a portion of general and administrative expenses as the agreed upon annual fee for this service. The agreement has been modified several times over the years, and currently operates under the 1994 amended agreement.

Under the same agreement, PBCSD additionally reimburses the District for one-third the cost of capital assets purchased or constructed for sewage treatment and disposal. Carmel Area Wastewater District maintains sole ownership of the wastewater treatment plant and related capital assets. PBCSD merely has a contractual "right to use" one-third of the sewage treatment plant's capacity under the terms of the most recent modified 1994 agreement. Accordingly, capital assets are recorded by the District at 100 percent of their historic cost or contributed value, and any expense reimbursements received from PBCSD or other affiliates are recorded as revenue to the District.

Intact sewage systems constructed by real estate developers are completed at no cost to the District. These systems, when formally accepted by District engineers and the Board of Directors, are recorded as revenue to the District.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The Carmel Area Wastewater District's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The financial transactions of the District are recorded in a Proprietary Fund type.

Proprietary Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the expenses, including depreciation, of providing goods or services to the general public are recovered through user charges.

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2016

Enterprise Funds are used to account for operations (1) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (2) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The District is such an enterprise fund.

The basic financial statements are prepared using the accrual basis of accounting. Accordingly all assets and liabilities (whether current or noncurrent) are included in the statement of net position. The statement of revenue, expenses, and change in net position presents increases (revenue) and decreases (expenses) in total net position. Capital contributions of property and equipment are reported as a separate line item in the statements of revenue, expenses, and change in net position.

Other Agencies

Accounting principles generally accepted in the United State of America require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause that reporting entity's financial statements to be misleading or incomplete. The criteria provided in GASB Statement No. 14 have been considered and there are no agencies or entities, which should be presented with the District.

Accounts and Records

Records of the District are maintained at its office in Carmel, California. These records include cash receipts and disbursements journals, a general ledger, complete minutes of Board meetings, resolutions, ordinances and files of supporting documents. Investment funds of the District are on deposit with the Monterey County Treasurer's investment pool.

Budgets and Budgetary Accounting

A budget of projected cash receipts and disbursements is prepared to meet the requirements of the Monterey County Auditor and for internal use by the Board of Directors. The budget is used to provide financial guidance to the District and to determine the amount of funds required from user fees and other sources. The only material difference between the budgetary basis method, and the accounting principles generally accepted in the United State of America (GAAP) method, is depreciation and amortization expense, and the principal portion of debt service payments.

OTHER SIGNIFICANT ACCOUNTING POLICIES ARE:

Basis of Accounting

The accounting methods and procedures adopted by the District conform to accounting principles generally accepted in the United State of America as applied to governmental enterprises funds. These financial statements are presented in accordance with Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. This Statement provides for; recognition of contributions in the Statement of Revenue, Expenses, and Change in Net Position; inclusion of a Management Discussion and Analysis as required supplementary information; and other disclosure changes.

Cash and Investments

The District maintains an account with the Monterey County Investment Pool, which essentially operates as a demand deposit account. Available cash balances are managed and controlled by the Monterey County Treasurer in pooled investment funds in order to provide safety, liquidity, and high investment returns for all funds. Earnings from these funds are credited to the District's account on a quarterly basis. Assessments in

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2016

excess of estimated current bond requirements of the District are deposited in the Monterey County account which earns interest based on the fund's prorata share of the cash in the investment fund. The District also maintains financial institution bank accounts for operations and payroll that are FDIC insured up to \$250,000.

Cash and Cash Equivalents

The District considers all highly liquid assets purchased with an original term to maturity of ninety days or less to be cash equivalents. Cash and cash equivalents are reported as "cash and investments" on the financial statement.

Restricted Assets

Certain cash and investments of the District are classified as restricted because their uses are limited by commitments made by the District with participants for the design and construction of Wastewater Treatment Plan facilities or as restricted by bond covenants. When an expense is incurred for purposes for which there are both restricted and unrestricted cash assets available, restricted cash is used first, then unrestricted cash as it is needed.

Investment Policy

The District has not adopted an investment policy but generally follows the Monterey County Treasurer's investment policy guidelines which allow investments in any security authorized by Section 53635 of the Government Code of the State of California, and any other Government Code that permits investments in various securities, or participation in investment trading techniques or strategies.

Accounts Receivable

Account receivables considered uncollectible are accounted for using the allowance method. The allowance for doubtful accounts was \$-0- at June 30, 2016. All annual user fee customer invoices are added to the County assessed property tax invoices, mailed to property owners annually, collected by the County Assessor where the proceeds are deposited into the District's investment account with the County Treasurer.

Property, Plant & Equipment

Capital assets are accounted for at historical cost or estimated cost. In accordance with the District's capital assets policy, minor expenditures under \$10,000 for renewals and betterments are charged to expense as incurred. Major expenditures for renewals and betterments are capitalized. In cases where assets are donated to the District, construction costs or estimated market values are recorded on the date received. Costs of assets sold, retired or otherwise disposed of have been eliminated from the accounts, and gains or losses on disposition are included in the applicable year's financial statement. The cost of normal maintenance and repairs, that do not add to the value of the asset or materially extend lives, are also expensed in the current period.

The cost of property and equipment is depreciated from the date of acquisition, using the straight-line method of depreciation over their estimated useful lives, as follows:

| <u>Asset Category</u> | <u>Useful Lives</u> |
|------------------------------|---------------------|
| Treatment Plant - structures | 30-40 years |
| Treatment Plant - equipment | 12-15 years |
| Collections - office | 40 years |
| Collections - pump stations | 40 years |
| Disposal Facilities | 20-50 years |
| Sewer and Appurtenances | 25-75 years |
| Other Assets | 25-75 years |

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2016

Vacation, Sick Leave, and Other Compensated Absences

The District has recorded an accrual for compensated absences in accordance with the District's policy of paying for unused vacation and sick leave of employees. The District's method of calculating the liability is in accordance with GASB Statement No. 16, except that the additional accruals for salary-related payments associated with the payment of compensation absences, for example the employer's share of pension contributions, social security and medicare taxes, have not been accrued as that amount is not considered significant or material to the financial statements taken as a whole. Compensated vacation and sick leave absences are recorded as expenditures when they are paid. Unpaid vacation and sick leave at year-end is recorded as an expense and a liability when earned by employees. These unpaid amounts will be paid from available resources provided for in future year budgets and are classified as current or noncurrent, based upon expected payment dates.

Maximum vacation accrual is 320 hours. The maximum sick leave accrual, eligible for payment, is 600 hours. Sick leave is earned regardless of length of employment at 4.6 hours per pay period. Employees earn vacation leave as follows:

| <u>Time of Employment</u> | <u>Accrual of Vacation Leave per Pay Period*</u> |
|---------------------------|--|
| One to five years | 3.1 Hours |
| Five to ten years | 4.6 Hours |
| Ten to twenty years | 6.2 Hours |
| Twenty-five years or more | 7.7 Hours |

*Rates of accrual for vacation and sick leave are per pay period; one pay period spans two weeks.

Long-term Obligations

Long-term debt and obligations are reported as liabilities on the statement of net position either as current if payments are to be made within 12 months of the fiscal year-end, otherwise as noncurrent.

Pension Funding Obligations

Beginning in fiscal year 2014-15, in accordance with GASB Statement No. 68, defined benefit pension plan overfunded or underfunded liabilities are required to be recognized and disclosed using the accrual basis of accounting, regardless of the amount recognized as pension expense using the modified accrual basis of accounting.

In general, the District recognizes a net pension liability, which represents the District's proportionate share of the excess of the total pension liability over the fiduciary net position of the pension reflected in the actuarial report provided by the California Public Employees Retirement System (CalPERS). The net pension liability is measured as of the District's prior fiscal year-end. Changes in the net pension liability are recorded, in the period incurred, as pension expense or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change. The changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources (that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience) are amortized over the weighted average remaining service life of all participants in the respective pension plan and are recorded as a component of pension expense beginning with the period in which they are incurred.

For purposes of measuring the net pension liability and deferred outflows/inflows or resources relating to pensions and pension expense, information about the fiduciary net position of the District's pension plan with CalPERS and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefits terms. Investments are reported at fair value. Projected earnings on pension investments are recognized as a component of pension expense.

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2016

Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred. Each subsequent year will incorporate an additional closed basis five-year period of recognition.

Net Position

The business-type activities financial statements utilize a net position presentation. Net position represents the difference between assets plus deferred outflow of resources, as compared to liabilities plus deferred inflow of resources, and are displayed in the following three components:

- *Net Investment in Capital Assets* - this component groups all capital assets, reduced by accumulated depreciation, and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of the assets.
- *Restricted Net Position* - this component represents net position that is subject to constraints either (1) externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted Net Position* - this component represents net position of the District, not restricted for any construction project or other purpose.

When both restricted and unrestricted net position is available, restricted resources are used first, then unrestricted resources as they are needed.

Operating and Nonoperating Revenue

Operating revenue and expenses consist of revenue that results from the ongoing principal operations of the District. Operating revenue consists primarily of charges for services. Nonoperating revenue results from non-exchange transactions, ancillary activities or subsidies, and investment earnings.

Property Taxes

Property taxes in the State of California are administered for all local agencies at the County level and consist of secured, unsecured and utility tax rolls. The following is a summary of major policies and practices relating to property taxes:

- *Property Valuations* - are established by the Assessor of Monterey County for the secured and unsecured property tax rolls; the utility property tax roll is valued by the California State Board of Equalization. Under the provisions of Article XIII A of the State Constitution (Proposition 13, adopted by the voters on June 6, 1978), properties are assessed at 100% of full value. From this base of assessment, subsequent annual increases in valuation are limited to a maximum of 2%. However, increase to full value is allowed for property improvements or upon change in ownership. Personal property is excluded from these limitations and is subject to annual reappraisal.
- *Tax Levies* - are limited to 1% of full assessed value which results in a tax rate of \$1.00 per \$100 assessed valuation under the provisions of Proposition 13. Tax rates for voter-approved indebtedness are excluded from this limitation.
- *Tax Levy Dates* - are attached annually on January 1, preceding the fiscal year for which the taxes are levied. The fiscal year begins July 1 and ends June 30 of the following year. Taxes are levied on both real and unsecured personal property. Liens against real estate, as well as the tax on personal property, are not relieved by subsequent renewal or change in ownership.

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2016

- Tax Collections - are the responsibility of the Monterey County's tax collector. Taxes and assessments on secured and utility rolls, which constitute a lien against the property, may be paid in two installments: The first is due on November 1 of the fiscal year and is delinquent if not paid by December 10; and the second is due on March 1 of the fiscal year and is delinquent if not paid by April 10. Unsecured personal property taxes do not constitute a lien against property unless the taxes become delinquent. Payment must be made in one installment, which is delinquent if not paid by August 31 of the fiscal year. Significant penalties are imposed by the County for late payments.
- Tax Levy Apportionments - due to the nature of the County-wide maximum levy, it is not possible to identify general-purpose tax rates for specific entities such as the District. Under State legislation adopted subsequent to the passage of Proposition 13, apportionments to local agencies are made by each County auditor-controller based primarily on the ratio that each agency represented of the total County-wide levy for the three fiscal years prior to fiscal year 1979.
- Property Tax Administration Fees - the State of California fiscal year 1990-91 Budget Act authorized Counties to collect an administrative fee for its collection and distribution of property taxes.
- Monterey County bills and collects property taxes and user fees for the District in addition to its own property taxes.

Use of Estimates

Preparing the District's financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 3 - CAWD/PBCSD Reclamation Project

The CAWD/PBCSD Reclamation Project (the Project) is a "cooperative effort" involving the Carmel Area Wastewater District (CAWD), the Pebble Beach Community Service District (PBCSD), the Monterey Peninsula Water Management District (MPWMD), the Pebble Beach Company (PBCo), and the Independent Reclaimed Water Users Group (IRWUG). This cooperative effort did not create a new or separate legal entity. The Project is accounted for as a Proprietary (Enterprise) Fund in the books of the Monterey Peninsula Water Management District, the issuer of the Certificates of Participation, which originally financed the Project. The activities of the Project are overseen by a six member management committee containing two representatives from the CAWD board, two from the PBCSD board, one from the PBCo board, and one from the Independent Reclaimed Water Users Group (IRWUG).

The Project provides treated or reclaimed wastewater to irrigate golf courses and open space areas within the community of Pebble Beach, which frees up potable water previously used for irrigation. The Project operates on the site of CAWD's existing wastewater treatment plant. The Project includes: a tertiary treatment plant, laboratory facilities, a wastewater distribution system, a storage tank used to distribute the treated wastewater to the receptor sites in Pebble Beach, and irrigation system improvements. Recent improvements include a Microfiltration/Reverse Osmosis facility at the CAWD plant, and a reservoir increase capacity project to hold additional reclaimed water at the PBCSD reservoir. The tertiary treatment plant produces water which meets Title 22 standards specified by the California Department of Health Services, which is a quality acceptable for irrigation.

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2016

Phase 1

The Project was initially financed in December 1992 by Certificates of Participation (COP) in the amount of \$33,900,000 which were executed and delivered at the direction of the MPWMD. Per the COP issuance agreement, the MPWMD agreed to provide the funds necessary to construct and operate the Project with contractual provisions to own the reclaimed water for the express purpose of resale of this water primarily to golf courses located within the Pebble Beach Community to reduce their reliance upon potable water. The PBCo guaranteed payment of construction costs of the Project, plus any operating deficiencies.

Any debt obligations incurred by the MPWMD to finance the Project constitutes limited obligations of MPWMD. These limited obligations are payable solely from the net operating revenue generated by the sale of reclaimed water produced by the Project and, if such reclaimed water revenue is insufficient, from payments on a Bond Letter of Credit, provided by Bank of America (the credit bank), through a reimbursement agreement between PBCo and the credit bank.

Phase 1 Construction of the Project began in January 1993, and was completed in October 1994. The Project assets are owned principally by CAWD and PBCSD, and consist primarily of the following:

Assets owned by CAWD include the following:

- new tertiary treatment plant
- secondary process improvements
- new laboratory facilities
- reclaimed water pump station
- related computer equipment
- small portion of the reclaimed water pipeline

Assets owned by PBCSD include the following:

- approximately seven miles of reclaimed water distribution system pipelines
- 2.5 million gallon storage tank
- portable water pump station
- reclaimed water booster pump station

Phase 2

In 2004, the elected Board of Directors of the Carmel Area Wastewater District, the Monterey Peninsula Water Management District, the Pebble Beach Community Services District, and the Pebble Beach Company approved agreements that enabled a significant expansion of the Project's operations known as Phase 2. The goal of the expansion was to enable the golf courses to be fully dependent on recycled water, thus saving a significant amount of potable water. The expansion was partially funded from the sales of Pebble Beach Company's legal water entitlement agreements to Del Monte Forest residential property owners, currently available at \$250,000 per acre foot. Approximately \$27 million has been raised through these sales and investment earnings, where they were deposited in a restricted escrow account.

The agreements commit the Pebble Beach Company and the Independent Reclaimed Water Users (the unincorporated association of the owners of Cypress Point Golf Club, Poppy Hills Golf Course, and the Monterey Peninsula Country Club) to use and pay for recycled water for irrigation, and make provisions for the beneficial use of any surplus recycled water.

The Project began construction on the Forest Lake Reservoir in 2004 with completion in 2006. Total cost of the reservoir component of the expanded project was approximately \$13 million. Upon completion of the reservoir, PBCSD began the application process with the California Division of Safety of Dams to increase the permitted capacity from 320 acre feet to 370 acre feet.

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2016

Design began in 2006 for the micro-filtration/reverse osmosis (MF/RO) treatment component, along with implementation of a pilot project at Carmel Area Wastewater District's treatment facility. Construction commenced in October 2006 on the MF/RO plant. At June 30, 2009 the entire construction project was complete. Total cost of the MF/RO portion was approximately \$21.5 million. The combined improvements are expected to solve water quality issues experienced by the golf courses and should eliminate their use of potable water except in case of emergency. Year-round production is now possible with the Forest Lake Reservoir providing *peak demand* requirements.

Note 4 - Cash and Investments

Cash and investments at fiscal year-end are classified in the accompanying financial statements as follows:

| | |
|--|----------------------|
| Statement of Net Position | |
| Cash and investments | <u>\$ 24,338,136</u> |
| Cash and investments are comprised of the following: | |
| Deposits with financial institutions: | |
| Checking accounts | \$ 748,349 |
| State investment pool | 1,111,480 |
| Monterey County investment pool | <u>22,478,307</u> |
| | <u>\$ 24,338,136</u> |

Participation in an external County Investment Pool

The District is a voluntary participant in the external Monterey County Investment Pool, which is regulated by the California Government Code and by the County's investment policy. The objectives of the policy are, in order of priority: safety, liquidity, yield and public trust. Interest earnings from these funds are credited to the District's account on a quarterly basis. According to the Monterey County Treasurer, their investment policy is in compliance with Section 53635 of the Government Code of the State of California, which permits investments in certain securities and participation in certain investment trading techniques or strategies. As of June 30, 2016, the County Pool had approximately \$1.3 billion in investments. Detailed information and annual reports concerning the County's investment pool can be obtained from the Monterey County Auditor/Controller, PO Box 390, Salinas, CA 93902.

Participation in an external State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF). LAIF, established in 1977, is regulated by California Government Code Section 16429 and under the day to day administration of the California State Treasurer. There is a five member Local Investment Advisory Board that is chaired by the State Treasurer. LAIF determines fair value of its investment portfolio based on market quotations for those securities where market quotations are readily available, and on amortized cost or best estimate for those securities where market value is not readily available. LAIF is part of the Pooled Money Investment Account (PMIA) and under the control of the State Treasurer's Office, which is audited by the Bureau of State Audits on an annual basis. As of June 30, 2016, PMIA had approximately \$77.6 billion in investments. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Audited financial statements of PMIA may be obtained from the California State Treasurer's web site at www.treasurer.ca.gov.

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2016

Investments Authorized by the Project's Investment Policy

The District does not have a specific investment policy but generally follows the guidelines of Monterey County's Investment Policy. All funds invested are managed to meet the guidelines stated in both California Code Section 53600, et. seq. and the County's investment policy. The following County Investment Pool guidelines and directives are generally followed by District management:

- The legal, final maturity of any single security within the investment portfolio will not exceed five years at purchase.
- The *weighted average life* of the portfolio will not exceed two years.
- The maximum maturity of investments in a money market pool shall not exceed 397 days, and the weighted maturity average maturity of the pool shall not exceed 90 days. A money market pool shall not exceed 10% of the portfolio's book value on the date investments are made; maximum investment in all money market pools shall not exceed 20% of the portfolio's book value on the date that investments are made.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the maturity date and yield of each investment:

| | | <u>Maturity Date and Yield</u> |
|---------------------------------|---------------|---|
| Monterey County investment pool | \$ 22,478,307 | 16 months average maturity, 1.03% yield |
| State investment pool | \$ 1,111,480 | 6 months average maturity, 0.55% yield |

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The County Pool does not have a rating provided by a nationally recognized statistical rating organization.

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. At year end, 92% of the District's cash was invested with the Monterey County Investment Pool.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. 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. At year end the District had \$502,189 in financial institutions that was not covered by the FDIC, but was covered by collateralized securities of the financial institutions where the deposits were maintained.

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2016

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the County's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

Note 5 - Receivables

Receivables at year end consist of the following:

| | | |
|---------------------------------------|----|---------|
| California Dept of Parks & Recreation | \$ | 42,267 |
| User fees | | 108,398 |
| total trade receivables | \$ | 150,665 |
| | | |
| CAWD/PBCSD Reclamation Project | \$ | 274,622 |
| Pebble Beach CSD - User fees | | 174,634 |
| Pebble Beach CSD - Capital | | 410,737 |
| total affiliate receivables | \$ | 859,993 |

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2016

Note 6 - Capital Assets

Capital assets activity for the year consists of the following:

| | Beginning Balance | Additions/ Completions | Retirements/ Adjustments | Ending Balance |
|---------------------------------|----------------------|---------------------------|-----------------------------|----------------------|
| <u>Non-depreciable Assets</u> | | | | |
| Land and land rights | \$ 308,060 | \$ - | \$ - | \$ 308,060 |
| Construction-in-progress | 2,991,518 | 8,970,721 | (2,991,518) | 8,970,721 |
| totals | <u>3,299,578</u> | <u>8,970,721</u> | <u>(2,991,518)</u> | <u>9,278,781</u> |
| <u>Depreciable Assets</u> | | | | |
| Treatment structures | 50,401,002 | 1,027,394 | - | 51,428,396 |
| Treatment equipment | 6,838,105 | 401,393 | - | 7,239,498 |
| Collection pump stations | 1,022,114 | 18,635 | - | 1,040,749 |
| Collection office | - | - | - | - |
| Collection pump equipment | 738,007 | - | - | 738,007 |
| Sewers and appurtenances | 10,675,004 | - | - | 10,675,004 |
| Disposal facilities | 1,126,273 | - | - | 1,126,273 |
| Other assets | 3,671,255 | 229,339 | - | 3,900,594 |
| totals | <u>74,471,760</u> | <u>1,676,761</u> | <u>-</u> | <u>76,148,521</u> |
| <u>Accumulated Depreciation</u> | <u>(39,641,814)</u> | <u>(2,392,750)</u> | <u>215,512</u> | <u>(41,819,052)</u> |
| <u>Net Capital Assets</u> | <u>\$ 38,129,524</u> | <u>\$ 8,254,732</u> | <u>\$ (2,776,006)</u> | <u>\$ 43,608,250</u> |

In the statement of revenue, expenses, and change in net position, total depreciation expense for the year was charged to the following departments:

| | |
|-------------------------------|---------------------|
| Sewage collection | \$ 325,955 |
| Sewage treatment and disposal | 2,036,414 |
| General and administrative | 30,381 |
| Nondepartmental adjustments | - |
| | <u>\$ 2,392,750</u> |

Note 7 - Payables

Payables at year end consist of the following:

| | |
|---|---------------------|
| Construction, Engineering and Consultants | \$ 1,099,476 |
| Legal and Accounting | 3,386 |
| Utilities | 1,296 |
| Affiliates | 5,486 |
| Other Vendors | 103,476 |
| | <u>\$ 1,213,120</u> |

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2016

Note 8 - Deferred Compensation Plan

The District maintains a deferred compensation plan for its eligible employees wherein amounts earned by the employees are paid at a future date. All full-time, regular, salaried employees are permitted to participate in the plan beginning on the first day of the month following their hire date. The employee may elect to make contributions up to the limits established by the Internal Revenue Service for this type of plan, and becomes 100% vested from the first date of participation. Nationwide Retirement Solutions, Inc., and the Variable Annuity Life Insurance Company, both administer the plan, which is in conformity with Section 457 of the Internal Revenue Code.

Note 9 - Long-term Obligations

Long-term debt and obligation activity for the year was as follows:

| <u>Business-type Activities</u> | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|---------------------------------|------------------------------|------------------|---------------------|---------------------------|--------------------------------|
| Revenue bonds | \$ 1,655,000 | \$ - | \$ (130,000) | \$ 1,525,000 | \$ 140,000 |
| Compensated absences | 449,501 | - | (279,480) | 170,021 | 42,505 |
| Bond premium, net | 25,487 | - | (25,487) | - | |
| totals | <u>\$ 2,129,988</u> | <u>\$ -</u> | <u>\$ (434,967)</u> | <u>\$ 1,695,021</u> | |

Compensated Absences

The accrued compensated absences amounts will be paid from available resources and are classified as current or noncurrent, based upon expected payment dates.

Revenue Bonds

In 2004, the District issued \$3,000,000 in *California Statewide Communities Development Authority Water and Wastewater Revenue Series 2004-A Bonds* through a pooled financing program for the design, planning, and construction of sewer facilities for certain properties of the Carmel Highlands area. The District has signed agreements with (1) the Highlands Inn, (2) the Highlands Sanitary Association (which is comprised of eleven individual owners as members) and (3) the Tickle Pink Inn, to be reimbursed through sewer user fees for all the annual costs associated with the bonds including, but not necessarily limited to, installment payments of principal and interest on the bonds, debt service or administrative fees, and costs or obligations for which the District is obligated to make under the terms of the bond agreement. The sewer user fees and reimbursable costs generated from the customers in the Carmel Highlands area are assessed and included on the Monterey County secured property tax rolls, and submitted by the District periodically, as is the same payment program with all District wastewater customers. Principal on the bonds is payable annually beginning October 1, 2004. Interest is payable semi-annually on October 1 and April 1, beginning October 1, 2004.

The interest rates on the bonds range from 1.5% to 5.25%; the bonds mature on October 1, 2024. The bond agreement contains a covenant requiring the District to yield "system net revenues" during each fiscal year equal to a least 120% of the annual debt service in the fiscal year. The covenant has been met.

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2016

Future annual principal and interest requirements are as follows:

| Year Ending June 30, | Revenue Bonds, Series 2004-A | | |
|----------------------|------------------------------|------------|--------------|
| | Principal | Interest | Total |
| 2017 | \$ 140,000 | \$ 76,213 | \$ 216,213 |
| 2018 | 145,000 | 68,906 | 213,906 |
| 2019 | 150,000 | 61,163 | 211,163 |
| 2020 | 160,000 | 53,025 | 213,025 |
| 2021 | 170,000 | 44,363 | 214,363 |
| 2022-2025 | 760,000 | 82,425 | 842,425 |
| totals | \$ 1,525,000 | \$ 386,095 | \$ 1,911,095 |

Note 10 - Postemployment Benefits Other than Pensions

Plan Description

In September 2002, the District established a postemployment health plan (PEHP) to meet its employees' postemployment health care needs and expenses. Under the PEHP plan, Nationwide Retirement Solutions Company (NRS) provides administrative services in exchange for a fee as agreed upon by the District and NRS. The plan does not establish a long-term liability of the District. All employees are permitted to participate in the plan beginning on the first day of the month following their hire date. The District contributes 1% of an employee's salary to the plan on a periodic basis, on behalf of each eligible employee who is a plan participant. In June 2004, the plan was amended to provide for the deposit of the dollar equivalent of up to 500 hours of available accrued sick time for an employee into his/her account upon separation from service with the District. Amounts contributed are segregated to either one or both of the following sub-accounts for: (1) reimbursements of qualifying medical care expenses not paid by insurance or (2) reimbursement of health care insurance premiums. Contributions may not vary among eligible employees to fund the qualifying medical care expense sub-account and will be made as an equal dollar amount for each employee. Contributions to fund health care insurance premium sub-accounts may be made as an equal dollar amount or as a percentage of salary, but such percent or dollar amount must apply to all eligible employees. For the year ended June 30, 2016 the District contributed \$20,780 to the plan.

Note 11 - Single Employer Defined Benefit Pension Plan

A. General Information about the Plan

Plan Description

The District placed a contribution freeze on its single employer defined benefit pension plan effective October 29, 2005, and adopted a new retirement plan with the California Public Employees Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan. Employees no longer accrue service credits under the single employer defined benefit plan, and the plan does not accept new employees. However, the District will continue funding this current plan to cover prior service, and the current plan will be paid out as eligible employees (those hired prior to October 29, 2005) leave District employment. The District is the Plan Administrator. Additional information concerning this Single Employer Defined Benefit Pension Plan can be obtained from the District's principal accountant.

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2016

Benefits Provided

The District maintains this single employer defined benefit pension plan that covers all full time employees as they become eligible for participation before October 29, 2005. An employee became eligible after six months of service and attaining the age of 20.5. The amounts of pension benefits are based on length of services and compensation. Premiums are paid into a trust, which is administered by LPL Financial (Linsco/Private Ledger). The District makes all required payments on behalf of its eligible employees.

The plan provides for a fixed benefit payment upon reaching retirement at age 62 or after five years of participation, if later. The retirement benefit is 2.5% of monthly compensation times years of services at the termination date. An employee's pre-retirement death benefit is equal to the present value of their accrued benefit. Effective July 1, 2001, the plan was amended for *participants*, defined as any employee who has completed one or more years of service, to vest under the following schedule:

| <u>Years of Service</u> | <u>Vesting</u> |
|-------------------------|----------------|
| 0-2 | 0% |
| 3 | 20% |
| 4 | 40% |
| 5 | 60% |
| 6 | 80% |
| 7 or more years | 100% |

Contributions

The District's funding policy is to provide for employer contributions once a year. Contributions are actuarially determined under the aggregate actuarial cost method and are designed to accumulate sufficient assets to pay benefits when due. Although service credit to the plan has stopped, employees will only be able to draw their pension account upon separation from District employment. The existing plan is closed to any new employees hired after October 29, 2005. Employer contributions to the plan for the year ended June 30, 2016 were \$130,672 and were made in accordance with the contribution requirements determined by actuarial valuation of the plan year beginning July 1, 2014.

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

As of June 30, 2016, the District reported a Net Pension Liability (overfunded) of the Plan in the amount of \$(482,385).

At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to this pension plan from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|-----------------------------------|----------------------------------|
| Changes of assumptions | \$ - | \$ 669,041 |
| Net difference between projected and actual earnings on pension plan investments | 320,501 | - |
| Differences between expected and actual experience | 101,117 | - |
| Totals | \$ 421,618 | \$ 669,041 |

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2016

Amounts reported as deferred inflows of resources related to pensions will be recognized as pension expense in the years ending June 30, 2016 and thereafter as follows:

| Year Ended June 30, | |
|------------------------|---------------------|
| 2017 | \$ (56,358) |
| 2018 | (56,358) |
| 2019 | (56,357) |
| 2020 | (54,362) |
| 2021 | (23,988) |
| thereafter | - |
| | <u>\$ (247,423)</u> |

C. Actuarial Assumptions

Actuarially determined contribution rates are calculated as of July 1, 12 months prior to the end of the fiscal year in which contributions are reported. Methods and assumption used to determine contribution rates are as follows:

| | |
|--|---------------|
| Valuation date | July 1, 2014 |
| Measurement date | June 30, 2016 |
| Actuarial cost method | Entry age |
| Amortization method | 5 years |
| Remaining amortization method | 3-5 years |
| Inflation | 2.00% |
| Salary increases | 3.50% |
| Investment Rate of Return, net | 6.00% |
| Retirement age, with 5 years participation | 62 |
| Mortality | RP2014 tables |

D. Discount Rate

The discount rate used to measure the total pension liability was 6.00% which is the long-term expected rate of return on pension plan investments net of pension plan administrative expense, including inflation.

Note 12 - Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

A. General Information about the Plan

Plan Description

Starting October 29, 2005, the District provides pension benefits to eligible employees through a cost-sharing multiple-employer defined benefit pension plan administered by the California Public Employees Retirement System (CalPERS). CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute and District ordinance. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2016

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50-55 with statutorily reduced benefits. Death benefits are the pre-retirement Optional Settlement 2W Death Benefit, and the post-retirement death benefit lump sum. The cost of living adjustments for each plan are applied as specified by the Public Employees Retirement Law.

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

| | <u>Miscellaneous Plan</u> | |
|---|-------------------------------------|--|
| | <u>Prior to January 1, 2013</u> | <u>On or after January 1, 2013</u> |
| Hire date | | |
| Benefit formula | 2% @ 60 | 2% @ 62 |
| Benefit vesting schedule | 5 years svc | 5 year svc |
| Benefit payments | monthly for life | monthly for life |
| Retirement age | 60 | 62 |
| Monthly benefits, as a % of eligible compensation | 2.0% | 2.0% |
| Required employee contribution rates | 6.880% | 6.308% |
| Required employer contribution rates | 8.049% | 6.250% |

Contributions

The District makes partial contributions required of District employees on their behalf and for their account depending upon date of hire. Employee members are required to make contributions of their annual covered salary in an amount depending upon date of hire. The contribution requirements of plan are established and may be amended by CalPERS. Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2016, employer pension plan contributions were as follows:

| | |
|--------------|---------------|
| Misc Classic | \$106,076 |
| Misc PEPRA | <u>28,018</u> |
| | \$134,094 |

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

As of June 30, 2015, the District reported net pension liabilities for its Proportionate Share of the Net Pension Liability (overfunded) of the Plan in the amount of \$(33,002).

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2016

The District's net pension liability for its Plan with CalPERS is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2015, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures.

The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

The District reported deferred outflows of resources and deferred inflows of resources related to this pension plan from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-----------------------------------|----------------------------------|
| Differences between expected and actual experience | 10,124 | - |
| Changes of assumptions | - | 95,778 |
| Net difference between projected and actual earnings on pension plan investments | - | 48,015 |
| Change in employer's proportion | - | 438,311 |
| Differences between employer's contributions and the proportionate share of contributions | 455,289 | - |
| Pension contributions subsequent to the measurement date | 134,094 | - |
| Totals | \$ 599,507 | \$ 582,104 |

Recognition of Deferred Outflows and Inflows of Resources in Future Pension Expense as follows:

| Fiscal Year Ending June 30: | |
|-----------------------------|-------------|
| 2017 | \$ (62,604) |
| 2018 | (61,701) |
| 2019 | (53,761) |
| 2020 | 61,374 |

C. Actuarial Assumptions

The total pension liability for this plan's actuarial valuation was determined using the following actuarial assumptions:

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2016

| | Miscellaneous Plan |
|---------------------------|-----------------------|
| Valuation Date | June 30, 2015 |
| Measurement Date | June 30, 2015 |
| Actuarial Cost Method | Entry-Age Normal Cost |
| Actuarial Assumptions: | |
| Discount Rate | 7.65% |
| Inflation | 2.75% |
| Payroll Growth | 3.00% |
| Projected Salary Increase | 3.3% - 15.0% (1) |
| Investment Rate of Return | 7.5% (2) |

(1) Depending on age, service, and type of employment

(2) Net of pension plan investment expenses, including inflation

D. Discount Rate

The discount rate used to measure the total pension liability was 7.65%. To determine whether the municipal bond rate should be used in the calculation of a discount rate, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.50 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year and will continue to check the materiality of the difference in calculation until such time as they change their methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach.

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2016

Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each asset class. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

CalPERS adheres to an Asset Allocation Strategy which establishes asset class allocation policy targets and ranges, and manages those asset class allocations within their policy ranges. The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses. The asset allocation has an expected long-term blended rate of return of 7.5 percent.

| Asset Class | New Strategic Allocation |
|----------------------------|-----------------------------|
| Global Equity | 51.00% |
| Global Fixed Income | 20.00% |
| Inflation Sensitive Assets | 6.00% |
| Private Equity | 10.00% |
| Real Assets | 12.00% |
| Other | 0.00% |
| Liquid Assets | 1.00% |
| | 100.00% |

E. Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

| | Discount Rate -1% 6.50% | Current Discount Rate 7.50% | Discount Rate +1% 8.50% |
|-----------------------|----------------------------|--------------------------------|----------------------------|
| Net Pension Liability | \$ 519,573 | \$ (33,002) | \$ (489,216) |

Note 13 - Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. This policy covers solely the District's property and equipment located at 26900 State Route 1 in Carmel, California, and not property and equipment owned by the Pebble Beach Community Services District or the Monterey Peninsula Water Management District that may be physically located on CAWD property.

The District is a member of the California Sanitation Risk Management Authority (CSRMA), an established public entity risk pool that operates as a common risk management and insurance program for 60 government members. The District pays an annual premium to the pool for its workers' compensation, excess workers compensation, property, and general coverage. Risk of loss is retained for general liability claims with a \$10,000 deductible. The agreement with the risk pool provides that it will be self-sustaining through member premiums

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2016

and additional policies purchased from commercial insurance companies for general liability claims, and for excess workers' compensation claims. The District's share of CSRMA year-end assets, liabilities, and retained earnings has not been calculated by the CSRMA. Financial statements may be obtained from CSRMA, 100 Pine Street, 11th Floor, San Francisco, California 94111.

Health Life and Vision Insurance - the District has approved a group health insurance plan, which provides benefits for all qualified employees.

Dental Insurance - the District has elected to self insure for dental insurance under a reimbursement plan. The amount of the contingent liability, if any, at fiscal year end is not material, however, the District is not aware of any significant claims currently pending.

Note 14 - Subsequent Events

The management of the District has reviewed the results of operations for the period from its year end June 30, 2016 through November 21, 2016, the date the draft financial statements were available to be issued, and have determined that no adjustments are necessary to the amounts reported in the accompanying financial statements nor have any subsequent events occurred, the nature of which would require disclosure.

Note 15 - Prior Period Adjustment

For the fiscal year ended June 30, 2015, a prior period adjustment in the amount of \$1,980,798 was made to increase the Districts' beginning net position to reflect the prior period's net pension liability in accordance with the implementation of GASB Statement No. 68.

Note 16 - New Pronouncements

The Governmental Accounting Standards Board (GASB) has released the following new pronouncements, which can read in their entirety at <http://www.gasb.org>.

GASB Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*
Effective Date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of paragraph 7 in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*
Effective Date: The requirements of this Statement are effective for periods beginning after December 15, 2016. Earlier application is encouraged.

GASB Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*
Effective Date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Earlier application is encouraged.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*
Effective Date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for the provisions in paragraphs 18, 19, 23–26, and 40, which are effective for

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2016

reporting periods beginning after December 15, 2015. Earlier application is encouraged.

GASB Statement No. 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans

Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

GASB Statement No. 77, Tax Abatement Disclosures

Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

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

Effective Date: The provisions in Statement 76 are effective for reporting periods beginning after June 15, 2015. Earlier application is encouraged.

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

Effective Date: The provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans

Effective Date: The provisions in Statement 74 are effective for fiscal years beginning after June 15, 2016. Earlier application is encouraged.

GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68

Effective Date: The provisions in Statement 73 are effective for fiscal years beginning after June 15, 2015—except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. Earlier application is encouraged.

REQUIRED SUPPLEMENTARY INFORMATION

CARMEL AREA WASTEWATER DISTRICT
Required Supplementary Information
Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
As of June 30, 2016

Schedule of Proportionate Share of the Net Pension Liability

The proportion (percentage) of the collective net pension liability represents the District's share of the cost-sharing plan assets offset against the actuarial determined collective pension liability.

The proportionate share (dollar amount) of the collective net pension liability represents the District's share of the cost-sharing plan assets offset against the actuarial determined collective pension liability.

The employer's covered-employee payroll represents the payroll of employees that are provided with pensions through the miscellaneous pension plan.

Schedule of Contributions

The employer's contributions to the plans are actuarially determined or based on statutory or contractual requirements which comprise the following: (1) the agent employer's actuarially determined contribution to the pension plan (its statutorily/contractually required contribution), (2) the employer's actual contributions, the difference between the actual and actuarially determined contributions (its statutorily/contractually required contributions), and (3) a ratio of the actual contributions divided by covered-employee payroll.

CARMEL AREA WASTEWATER DISTRICT
Required Supplementary Information
Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
As of June 30, 2016

| | 2016 * | 2015 |
|---|--------------|--------------|
| <u>Schedule of the District's Proportionate Share of the Net Pension Liability</u> | | |
| Town's proportion of the net pension liability | 0.000481% | 0.010110% |
| Town's proportionate share of the net pension liability | \$ (33,002) | \$ 629,116 |
| Town's covered-employee payroll | \$ 2,053,405 | \$ 1,868,031 |
| Town's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 1.61% | 33.68% |
| Plan fiduciary net position as a percentage of the total pension liability | 78.40% | 79.82% |

* the amounts presented for fiscal year 2015-16 were determined as of the June 30, 2015 measurement date.

Schedule of the Town's Contributions

| | | |
|--|--------------|--------------|
| Actuarially determined contribution | \$ 134,094 | \$ 157,952 |
| Contributions in relation to the actuarially determined contribution | 134,094 | 718,672 |
| Contribution deficiency (excess) | \$ - | \$ (560,720) |
| District's covered-employee payroll | \$ 2,030,331 | \$ 2,053,405 |
| Contributions as a percentage of covered-employee payroll | 6.60% | 35.00% |

CARMEL AREA WASTEWATER DISTRICT
Required Supplementary Information
Single Employer Defined Benefit Pension Plan
Year Ended June 30, 2016

Schedule of Changes in the Net Pension Liability and Related Ratios

The beginning and ending balances of the total pension liability, the plan assets available for pension benefits, and the net pension liability, as well as the change in those amounts during the year are presented by cause.

Total pension liability, plan net position, net pension liability, a ratio of plan net position divided by the total pension liability, payroll amount for current employees in the plan (covered-employee payroll), and a ratio of the net pension liability divided by covered-employee payroll.

Schedule of Contributions

If an agent employer's contributions to the plan are actuarially determined or based on statutory or contractual requirements: the agent employer's actuarially determined contribution to the pension plan (or, if applicable, its statutorily or contractually required contribution), the employer's actual contributions, the difference between the actual and actuarially determined contributions (or statutorily or contractually required), and a ratio of the actual contributions divided by covered-employee payroll. For fiscal year June 30, 2015-16, the plan actuary determined that the employer was not required to make a contribution because the plan's assets exceeded the plan's liability as of June 30, 2016, the measurement date. The employer did however make a contribution in the amount of \$130,672 due to their conservative fiscal practices.

CARMEL AREA WASTEWATER DISTRICT
Required Supplementary Information
Single Employer Defined Benefit Pension Plan
Year Ended June 30, 2016

Schedule of Changes in the Net Pension Liability and Related Ratios

| <u>Total Pension Liability</u> | 2016 | 2015 |
|---|---------------------|---------------------|
| Service Cost | \$ - | \$ - |
| Interest on total pension liability | 267,034 | 234,721 |
| Differences between expected and actual experience | 29,560 | 103,803 |
| Changes of assumptions | - | (907,311) |
| Benefit payments, including refunds of employee contributions | (319,499) | (73,846) |
| Net change in total pension liability | (22,905) | (642,633) |
| Total pension liability - beginning | 4,610,314 | 5,252,947 |
| Total pension liability - ending | <u>\$ 4,587,409</u> | <u>\$ 4,610,314</u> |

Plan Fiduciary Net Position

| | | |
|---|---------------------|---------------------|
| Contributions - employer | \$ 130,672 | \$ 216,420 |
| Contributions - employee | - | - |
| Net investment income - expected | (92,216) | 227,644 |
| Net investment income - gain/(loss) | - | 9,974 |
| Administrative expense | (16,821) | - |
| Benefit payments | (319,499) | (73,846) |
| Net change in plan fiduciary net position | (297,864) | 380,192 |
| Plan fiduciary net position - beginning | 5,367,658 | 4,987,466 |
| Plan fiduciary net position - ending | <u>\$ 5,069,794</u> | <u>\$ 5,367,658</u> |

| | | |
|------------------------------------|---------------------|---------------------|
| Net Pension Liability (overfunded) | <u>\$ (482,385)</u> | <u>\$ (757,344)</u> |
|------------------------------------|---------------------|---------------------|

Plan Fiduciary Net Position as a Percentage of the Total Pension Liability

| | | |
|---|------------|------------|
| Covered employee payroll | \$ 759,350 | \$ 785,681 |
| Net pension liability as percentage of covered employee payroll | -64.00% | -97.00% |

Schedule of Contributions

| | | |
|---|--------------------|--------------------|
| Actuarially determined contribution | \$ 88,667 | \$ 130,567 |
| Contributions in relation to the actuarially determined contributions | 130,672 | 216,420 |
| Contribution deficiency (excess) | <u>\$ (42,005)</u> | <u>\$ (85,853)</u> |
| Covered employee payroll | \$ 759,350 | \$ 779,176 |
| Contributions as a percentage of covered employee payroll | 17.00% | 28.00% |

CARMEL AREA WASTEWATER DISTRICT
Schedule I - Revenue and Expenses
Budget to Actual - Budgetary Basis
Year Ended June 30, 2016

| | Final Budget (unaudited) | Actual | Variance Favorable (Unfavorable) |
|--|-----------------------------|---------------------|--|
| <u>Operating Revenue</u> | | | |
| Sewer service fees | \$ 5,800,715 | \$ 6,120,062 | \$ 319,347 |
| PBCSD treatment fees | 1,000,000 | 1,146,109 | 146,109 |
| Reclamation Project O&M reimbursements | 546,880 | 455,966 | (90,914) |
| Permits and inspection fees | 5,000 | 10,100 | 5,100 |
| Other operating revenue | - | - | - |
| Total operating revenue | <u>7,352,595</u> | <u>7,732,237</u> | <u>379,642</u> |
| <u>Operating Expenses</u> | | | |
| Sewage collection | 1,514,416 | 1,333,190 | 181,226 |
| Sewage treatment and disposal | 5,714,144 | 5,023,088 | 691,056 |
| General and administrative | 1,460,894 | 977,326 | 483,568 |
| Reclamation Project O&M expenses | 503,702 | 450,904 | 52,798 |
| GASB 68 pension expense | - | 1,695,431 | (1,695,431) |
| Total operating expenses | <u>9,193,156</u> | <u>9,479,939</u> | <u>(286,783)</u> |
| Operating income (loss) | (1,840,561) | (1,747,702) | 92,859 |
| <u>Nonoperating Revenue and (Expenses)</u> | | | |
| Property tax revenue | 1,479,635 | 1,736,624 | 256,989 |
| Investment revenue | 60,000 | 188,057 | 128,057 |
| Highlands assessment revenue | 215,563 | 215,594 | 31 |
| Connection fees | 5,000 | 115,212 | 110,212 |
| PBCSD capital reimbursements | 3,260,506 | 2,271,411 | (989,095) |
| Reclamation Project capital reimbursements | 724,750 | 694,936 | (29,814) |
| Debt Service - Interest | (82,963) | (84,453) | (1,490) |
| Amortization of bond issuance costs | (2,600) | - | 2,600 |
| Other non-operating revenue (expenses) | - | 11,515 | 11,515 |
| Total non-operating revenue and (expenses) | <u>5,659,891</u> | <u>5,148,896</u> | <u>(510,995)</u> |
| Net income (loss) | \$ 3,819,330 | \$ 3,401,194 | \$ (418,136) |
| <u>Non-GAAP Reconciling Adjustment</u> | | | |
| Debt Service - Principal | (130,000) | (130,000) | - |
| | <u>\$ 3,689,330</u> | <u>\$ 3,271,194</u> | <u>\$ (418,136)</u> |

CARMEL AREA WASTEWATER DISTRICT
Schedule II - Operating Expenses by Department
Year Ended June 30, 2016

| | <u>Collection</u> | <u>Treatment & Disposal</u> | <u>General & Administrative</u> | <u>Reclamation Project</u> | <u>Total</u> |
|-----------------------------|---------------------|-------------------------------------|---|--------------------------------|---------------------|
| Salaries | \$ 323,458 | \$ 883,230 | \$ 400,128 | \$ 293,491 | \$ 1,900,307 |
| Payroll taxes | 29,494 | 96,838 | 34,664 | 146,746 | 307,742 |
| Employee benefits | 148,137 | 508,504 | 183,567 | - | 840,208 |
| Allocate to Reclamation | - | (137,645) | (9,101) | - | (146,746) |
| Attorney fees | - | 40,691 | 25,837 | - | 66,528 |
| Audit and financial | - | - | 28,125 | - | 28,125 |
| Contract services | 173,899 | 413,465 | 62,465 | - | 649,829 |
| Depreciation | 325,955 | 2,036,414 | 30,381 | - | 2,392,750 |
| Directors fees | - | - | 13,242 | 1,200 | 14,442 |
| Engineering & consulting | 10,055 | 24,487 | 44,136 | - | 78,678 |
| Insurance | 13,264 | 48,562 | 11,984 | 7,779 | 81,589 |
| Laundry | 5,616 | 13,022 | - | 1,046 | 19,684 |
| Memberships & subscriptions | 2,187 | 6,498 | 29,990 | - | 38,675 |
| Office supplies & services | 8,922 | 23,491 | 13,172 | - | 45,585 |
| Operating & safety supplies | 35,443 | 335,528 | 3,255 | 71 | 374,297 |
| Repairs & maintenance | 165,371 | 375,531 | 6,414 | - | 547,316 |
| Telephone | 7,494 | 12,410 | 9,921 | 571 | 30,396 |
| Travel & meetings | 8,609 | 32,069 | 7,936 | - | 48,614 |
| Trucks & auto | 41,860 | 10,591 | 2,379 | - | 54,830 |
| Utilities | 22,572 | 236,652 | 7,811 | - | 267,035 |
| Other expenses | 10,854 | 62,750 | 71,020 | - | 144,624 |
| GASB 68 pension expense | 341,290 | 931,979 | 422,162 | - | 1,695,431 |
| Totals, by department | <u>\$ 1,674,480</u> | <u>\$ 5,955,067</u> | <u>\$ 1,399,488</u> | <u>\$ 450,904</u> | <u>\$ 9,479,939</u> |

CARMEL AREA WASTEWATER DISTRICT
Schedule III - Collection Department Expenses
Budget to Actual - Budgetary Basis
Year Ended June 30, 2016

| | Final Budget (unaudited) | Actual | Variance Favorable (Unfavorable) |
|-----------------------------|-----------------------------|---------------------|--|
| Salaries | \$ 380,510 | \$ 323,458 | \$ 57,052 |
| Payroll taxes | 29,110 | 29,494 | (384) |
| Employee benefits | 148,136 | 148,137 | (1) |
| Allocate to Reclamation | - | - | - |
| Attorney fees | - | - | - |
| Audit and financial | - | - | - |
| Contract services | 137,850 | 173,899 | (36,049) |
| Depreciation | 325,000 | 325,955 | (955) |
| Directors fees | - | - | - |
| Engineering & consulting | 35,000 | 10,055 | 24,945 |
| Insurance | 12,290 | 13,264 | (974) |
| Laundry | 5,100 | 5,616 | (516) |
| Memberships & subscriptions | 1,570 | 2,187 | (617) |
| Office supplies & services | 11,900 | 8,922 | 2,978 |
| Operating & safety supplies | 40,500 | 35,443 | 5,057 |
| Repairs & maintenance | 255,400 | 165,371 | 90,029 |
| Telephone | 9,350 | 7,494 | 1,856 |
| Travel & meetings | 15,100 | 8,609 | 6,491 |
| Trucks & auto | 70,610 | 41,860 | 28,750 |
| Utilities | 26,390 | 22,572 | 3,818 |
| Other expenses | 10,600 | 10,854 | (254) |
| GASB 68 pension expense | - | 341,290 | (341,290) |
| Totals | <u>\$ 1,514,416</u> | <u>\$ 1,674,480</u> | <u>\$ (160,064)</u> |

CARMEL AREA WASTEWATER DISTRICT
Schedule IV - Treatment & Disposal Department Expenses
Budget to Actual - Budgetary Basis
Year Ended June 30, 2016

| | Final Budget (unaudited) | Actual | Variance Favorable (Unfavorable) |
|-----------------------------|-----------------------------|---------------------|--|
| Salaries | \$ 1,165,325 | \$ 883,230 | \$ 282,095 |
| Payroll taxes | 89,148 | 96,838 | (7,690) |
| Employee benefits | 539,073 | 508,504 | 30,569 |
| Allocate to Reclamation | (144,750) | (137,645) | (7,105) |
| Attorney fees | 75,000 | 40,691 | 34,309 |
| Audit and financial | - | - | - |
| Contract services | 406,405 | 413,465 | (7,060) |
| Depreciation | 2,200,000 | 2,036,414 | 163,586 |
| Directors fees | - | - | - |
| Engineering & consulting | 125,000 | 24,487 | 100,513 |
| Insurance | 52,285 | 48,562 | 3,723 |
| Laundry | 11,000 | 13,022 | (2,022) |
| Memberships & subscriptions | 6,500 | 6,498 | 2 |
| Office supplies & services | 33,700 | 23,491 | 10,209 |
| Operating & safety supplies | 264,915 | 335,528 | (70,613) |
| Repairs & maintenance | 521,000 | 375,531 | 145,469 |
| Telephone | 16,000 | 12,410 | 3,590 |
| Travel & meetings | 35,550 | 32,069 | 3,481 |
| Trucks & auto | 29,218 | 10,591 | 18,627 |
| Utilities | 256,275 | 236,652 | 19,623 |
| Other expenses | 32,500 | 62,750 | (30,250) |
| GASB 68 pension expense | - | 931,979 | (931,979) |
| Totals | <u>\$ 5,714,144</u> | <u>\$ 5,955,067</u> | <u>\$ (240,923)</u> |

CARMEL AREA WASTEWATER DISTRICT
Schedule V - General & Administrative Department Expenses
Budget to Actual - Budgetary Basis
Year Ended June 30, 2016

| | Final Budget (unaudited) | Actual | Variance Favorable (Unfavorable) |
|-----------------------------|-----------------------------|---------------------|--|
| Salaries | \$ 501,455 | \$ 400,128 | \$ 101,327 |
| Payroll taxes | 34,040 | 34,664 | (624) |
| Employee benefits | 169,675 | 183,567 | (13,892) |
| Allocate to Reclamation | (3,750) | (9,101) | 5,351 |
| Attorney fees | 36,000 | 25,837 | 10,163 |
| Audit and financial | 25,300 | 28,125 | (2,825) |
| Contract services | 113,269 | 62,465 | 50,804 |
| Depreciation | 38,860 | 30,381 | 8,479 |
| Directors fees | 17,850 | 13,242 | 4,608 |
| Engineering & consulting | 85,000 | 44,136 | 40,864 |
| Insurance | 21,895 | 11,984 | 9,911 |
| Laundry | - | - | - |
| Memberships & subscriptions | 23,080 | 29,990 | (6,910) |
| Office supplies & services | 25,180 | 13,172 | 12,008 |
| Operating & safety supplies | 1,650 | 3,255 | (1,605) |
| Repairs & maintenance | 5,000 | 6,414 | (1,414) |
| Telephone | 9,450 | 9,921 | (471) |
| Travel & meetings | 24,200 | 7,936 | 16,264 |
| Trucks & auto | 1,150 | 2,379 | (1,229) |
| Utilities | 8,150 | 7,811 | 339 |
| Other expenses | 323,440 | 71,020 | 252,420 |
| GASB 68 pension expense | - | 422,162 | (422,162) |
| Totals | <u>\$ 1,460,894</u> | <u>\$ 1,399,488</u> | <u>\$ 61,406</u> |

CARMEL AREA WASTEWATER DISTRICT
Schedule VI - Reclamation Project Department Expenses
Budget to Actual - Budgetary Basis
Year Ended June 30, 2016

| | Final Budget (unaudited) | Actual | Variance Favorable (Unfavorable) |
|----------------------------|-----------------------------|-------------------|--|
| Salaries | \$ 327,801 | \$ 293,491 | \$ 34,310 |
| Payroll taxes | 163,901 | 146,746 | 17,155 |
| Directors fees | 1,000 | 1,200 | (200) |
| Insurance | 8,000 | 7,779 | 221 |
| Office floor mats | - | 1,046 | (1,046) |
| Office supplies & services | 2,000 | 71 | 1,929 |
| Repairs & maintenance | 1,000 | 571 | 429 |
| Totals | <u>\$ 503,702</u> | <u>\$ 450,904</u> | <u>\$ 52,798</u> |

CARMEL AREA WASTEWATER DISTRICT
Schedule VII - Insurance (unaudited)
Year Ended June 30, 2016

| | <u>Coverage</u> | <u>Deductible</u> |
|--|-----------------|------------------------|
| Comprehensive GL/AL (including errors and omissions) | \$ 15,000,000 | \$2,500 to \$25,000 |
| Excess Public Entity Liability (including errors and omissions - \$5,000,000) | \$ 10,000,000 | None |
| Special Form Property | \$ 66,788,788 | \$10,000 |
| Workers' Compensation/Employers' Liability | \$ 750,000 | None |
| Excess Workers Compensation/Employers Liability | \$ 750,000 | None |