

**Sativa - Los Angeles County
Water District**

**Financial Statements and
Independent Auditor's Report
Fiscal Year Ended June 30, 2016**

Sativa – Los Angeles County Water District

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For the Year Ended June 30, 2016**

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KNL Support Services

8947 S. Hobart Boulevard
Los Angeles, CA 90047
213-663-7523 PH
213-675-4133 PH
323-758-0873 FAX
knl.support.svc@sbcglobal.net

Independent Auditor's Report

Board of Directors
Sativa-Los Angeles County Water District
Compton, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Sativa - Los Angeles County Water District (District) as of June 30, 2016 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, as well as the *State Controller's Minimum Audit Requirements for California Special Districts*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of June 30, 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, as well as the accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

Other Matters

Required Supplementary Information

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

KML Support Services

Los Angeles, California

June 12, 2017

Sativa – Los Angeles County Water District

Management's Discussion and Analysis For the Year Ended June 30, 2016

As management of the Sativa-Los Angeles County Water District (the District), we offer the readers of the District's financial statements this narrative overview and analysis of the financial activities for the District for the fiscal year ended June 30, 2016 as required by the Governmental Accounting Standards Board (GASB). Please read it in conjunction with the District's basic financial statements and note disclosures, which follow this section.

Overview of the Financial Statements

The District operates as a utility enterprise and presents its financial statements using the economic resources measurement focus and the full accrual basis of accounting. The annual report consists of two parts: 1) Management's Discussion and Analysis and 2) Financial Statements. The Management's Discussion and Analysis is intended to serve as an analysis of the District's basic financial statements, which are comprised of the Financial Statements and Notes to the Financial Statements. As an enterprise fund, the District's basic financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows.

Statement of Net Position

The Statement of Net Position presents information on the District's assets and liabilities, with the difference between the two reported as net position.

Condensed Statement of Net Position June 30, 2015 and June 30, 2016

	<u>2015</u>	<u>2016</u>
ASSETS:		
Current assets	\$ 956,836	\$ 524,274
Capital assets, net	<u>951,754</u>	<u>1,219,308</u>
Total assets	<u>1,908,590</u>	<u>1,743,582</u>
LIABILITIES:		
Current liabilities	<u>326,728</u>	<u>220,395</u>
NET POSITION:		
Net investment in capital assets	951,754	1,219,308
Unrestricted	<u>630,108</u>	<u>303,879</u>
Total net position	<u>\$ 1,581,862</u>	<u>\$ 1,523,187</u>

Sativa – Los Angeles County Water District

**Management's Discussion and Analysis
For the Year Ended June 30, 2016**

The District continues to maintain a strong cash position, with \$419,672 in unrestricted cash and investments at June 30, 2016.

The District prepared a Cost of Service Analysis which determined options for bringing the District back to a consistent positive net income. As a result, a series of rate increases were approved by the Board which are projected to bring the District back into positive net income and which will allow the District to both afford a full-time General Manager and set aside reserves to allow it to gradually rebuild its aging water distribution system.

**Condensed Statement of Revenues, Expenses,
and Changes in Net Position
For the years ended June 30, 2015 and June 30, 2016**

	<u>2015</u>	<u>2016</u>
REVENUES:		
Water sales and services	\$ 1,051,920	\$ 1,091,345
Other operating revenues	44,230	28,881
Interest income	1,500	2,279
Total revenue	<u>1,097,650</u>	<u>1,122,505</u>
EXPENSES:		
Operating	1,072,140	1,181,180
Non-operating	9,726	-
Total expenses	<u>1,081,866</u>	<u>1,181,180</u>
Increase (decrease) in net position	15,784	(58,675)
Net position, beginning of year	1,566,078	1,581,862
Net position, end of year	<u>\$ 1,581,862</u>	<u>\$ 1,523,187</u>

The Statement of Revenues, Expenses, and Changes in Net Position presents information on how the District's Net Position changed during the fiscal year.

For the fiscal years ended 2015 and 2016, the District's total revenues were \$1,097,650 and \$1,122,505 respectively, representing a 0.36% decrease and 2.18% increase over the previous years, respectively. This net increase is consistent with there having been no rate increase for several years and little opportunity for growth due to the District being a fully built out residential neighborhood.

The increase in operating expenses was mainly due an increase in general and administrative expenses, particularly, salaries and expenses. The District hired a General Manager near the end of fiscal year 2015 and an Administrative Manager midway thru fiscal year 2016.

Sativa – Los Angeles County Water District

**Management's Discussion and Analysis
For the Year Ended June 30, 2016**

Capital Assets

**Condensed Schedule of Capital Assets
June 30, 2015 and June 30, 2016**

	<u>2015</u>	<u>2016</u>
Land	\$ 154,511	\$ 154,511
Water utility plant	1,876,542	2,090,291
Office improvements	201,031	201,031
Plant maintenance equipment	69,989	179,389
Office furniture and equipment	57,934	83,422
Vehicles	77,315	77,315
Accumulated depreciation	(1,485,568)	(1,566,651)
Total capital assets, net	<u>\$ 951,754</u>	<u>\$ 1,219,308</u>

Capital asset additions included \$213,749 in water utility plant, \$109,400 in plant maintenance equipment and \$25,488 in office equipment.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional explanations that are essential to a full understanding of the data reported in the financial statements.

Request for Information

This financial report is designed to provide a general overview of the District's finances for all interested parties. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Sativa - Los Angeles County Water District, 2015 E. Hatchway Street, Compton, California 90222.

Sativa – Los Angeles County Water District

**Statement of Net Position
June 30, 2016**

ASSETS

Current assets:

Cash and Investments	\$	419,672
Accounts receivable - customers		92,811
Interest receivable		657
Prepaid expenses		11,134
		<hr/>

Total current assets 524,274

Noncurrent assets:

Capital assets, not being depreciated		154,511
Capital assets, being depreciated, net		1,064,797
		<hr/>

Total noncurrent assets 1,219,308

Total assets 1,743,582

LIABILITIES

Current liabilities:

Accounts payable		33,140
Accrued liabilities		12,541
Customer deposits		142,678
Compensated absences		32,036
		<hr/>

Total current liabilities 220,395

Total liabilities 220,395

NET POSITION

Net investment in capital assets		1,219,308
Unrestricted		303,879
		<hr/>

Total net position \$ 1,523,187

The accompanying notes are an integral part of these financial statements.

Sativa – Los Angeles County Water District

**Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2016**

OPERATING REVENUES

Water sales and services	\$ 1,091,345
Other operating revenues	<u>28,881</u>
Total operating revenues	<u>1,120,226</u>

OPERATING EXPENSES

Water purchases	94,921
Pumping costs	67,845
Water treatment	11,752
Transmission and distribution	88,461
Customer accounts	22,416
General and Administration	814,702
Depreciation	<u>81,083</u>
Total operating expenses	<u>1,181,180</u>
Operating income	<u>(60,954)</u>

NON-OPERATING REVENUE (EXPENSES)

Interest income	2,279
Other expenses	<u>-</u>
Total nonoperating revenues (expenses)	<u>2,279</u>
Change in net position	(58,675)
Net position, beginning of year	<u>1,581,862</u>
Net position, end of year	<u>\$ 1,523,187</u>

The accompanying notes are an integral part of these financial statements.

Sativa – Los Angeles County Water District

**Statement of Cash Flows
For the Year Ended June 30, 2016**

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 1,102,228
Cash paid to employees for salaries and benefits	(423,226)
Cash paid to vendors and suppliers	<u>(760,841)</u>
Net cash provided by operating activities	<u>(81,839)</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of capital assets	<u>(348,637)</u>
Net cash used for capital and related financing activities	<u>(348,637)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	<u>2,033</u>
Net cash provided by investing activities	<u>2,033</u>

Net increase in cash	(428,443)
Cash, beginning of year	<u>848,115</u>
Cash, end of year	<u><u>\$ 419,672</u></u>

**RECONCILIATION OF OPERATING INCOME TO NET CASH
PROVIDED BY OPERATING ACTIVITIES**

Operating Income	\$ (60,954)
Adjustments:	
Depreciation	81,083
Other expenses	466
Changes in assets and liabilities	
(Increase) Decrease in:	
Accounts receivable - customers	(1,155)
Prepaid expenses	5,054
Increase (Decrease) in:	
Accounts payable	(103,788)
Accrued liabilities	(3,751)
Customer deposits	(13,593)
Payments received in advance	(3,250)
Compensated absences	<u>18,049</u>
Net cash provided by operating activities	<u><u>\$ (81,839)</u></u>

The accompanying notes are an integral part of these financial statements.

**Notes to the Financial Statements
For the Year Ended June 30, 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Reporting Entity

The District was incorporated on December 30, 1938 in the State of California. The District supplies domestic water services to a portion of the Willowbrook area, an unincorporated area of the County of Los Angeles. The service area is approximately one-half square mile, in which the District provides service to approximately 1,600 service connections. The District maintains two active wells and one off-line well at three plant locations.

The District is governed by a five-member elected Board of Directors, which has no oversight responsibility over any other entities, and no component units within its reporting entity structure. The criteria used to determine the reporting entity included, but was not limited to: (a) financial independence, (b) selection of the governing authority, (c) designation of management, (d) ability to significantly influence operations, and (e) accountability for fiscal matters.

B. Basis of Accounting

The District accounts for its operations in an enterprise fund. An enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services to the general public are financed or recovered primarily through user charges.

The basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Enterprise funds are accounted for using the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

C. Use of Estimates

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

D. Uniform Accounting System

The District follows the accounting system for water utility districts prescribed by the State Controller.

E. Cash and Investments

Cash and investments include amounts in demand deposit accounts at financial institutions, cash on hand, and investments in the Local Agency Investment Fund (LAIF) of the State of California. Cash and investments are stated at fair value. For further details see Note 2.

For purposes of its Statement of Cash Flows, the District defines cash and cash equivalents as cash on hand, imprest cash, demand deposits with financial institutions, and investments with the Local Agency Investment Fund (LAIF).

**Notes to the Financial Statements
For the Year Ended June 30, 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

F. Receivables and Revenue Recognition

Revenues are recognized on the accrual basis of accounting. There is no provision for uncollectible accounts. The District's billing and customer forfeiture policies are structured so that the customer deposit forfeited will equal or exceed the balance due on the uncollectible account.

G. Prepaid Expenses

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

H. Capital Assets

The accounting and reporting treatment applied to the capital assets associated with a fund are determined first by measurement focus. Enterprise funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities associated with their activity are included on the Statement of Net Position. Enterprise fund operating statements present increases and decreases in net position.

Purchases of equipment, tools and vehicles that individually have an original cost of more than \$500, as well as all land and building acquisitions, regardless of cost, and additions or major improvements to the District's service infrastructure are capitalized as capital assets.

Capital assets are valued at historical or estimated historical cost. Depreciation of capital assets used by enterprise funds is charged as an expense against their operations. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Water utility plant and office improvements	10 to 30 years
Plant maintenance equipment, vehicles, office furniture and equipment	5 to 10 years

I. Compensated Absences

Accumulated unpaid employee vacation leave benefits are recognized as liabilities of the District when vested. Full-time employees are granted two to seven weeks of vacation per year depending on length of service. The District's vacation leave policy limits accrued vacation leave to a maximum of 30 days.

District employees are granted one day of sick leave per month. The District's sick leave policy stipulates that each employee can accrue up to a maximum of 12 sick days; any sick time earned after the 12 day accrual shall be lost and no sick leave is payable upon employees leaving the District's employment.

**Notes to the Financial Statements
For the Year Ended June 30, 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

J. Net Position

The Statement of Net Position utilizes the following net position categories:

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

K. Restricted Resources

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

L. Operating and Nonoperating Activities

The District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for water sales and services. Operating expenses include the cost associated with the purchasing, pumping, and distribution of water, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

M. New Accounting Pronouncements

The District early-implemented Government Accounting Standards Board Statement No. 72 – Fair Value Measurement and Application during fiscal year 2015.

**Notes to the Financial Statements
For the Year Ended June 30, 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

N. Contingencies

Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the District but which will only be resolved when one or more future events occur or fail to occur. The District’s management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the District or unasserted claims that may result in such proceedings, the District’s legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the District’s financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee would be disclosed.

NOTE 2 – CASH AND INVESTMENTS

As of June 30, 2016, cash and investments are comprised of:

Cash on Hand	\$	2,000
Imprest Cash		200
Demand deposit accounts		(65,921)
Local Agency Investment Fund		<u>483,393</u>
 Total	 \$	 <u>419,672</u>

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 of each investment:

	<u>Fair Value</u>	<u>Maturity Date</u>
LAIF Investment Pool	\$483,393	12 months or less

**Notes to the Financial Statements
For the Year Ended June 30, 2016**

NOTE 2 – CASH AND INVESTMENTS, continued

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. LAIF 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 limitation on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer that represent 5% or more of total District investments (other than external investment pools).

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local government 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.

As of June 30, 2016, the amount of the District's deposits with financial institutions was not in excess of federal depository insurance limits.

**Notes to the Financial Statements
For the Year Ended June 30, 2016**

NOTE 2 – CASH AND INVESTMENTS, continued

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

The LAIF is a special fund of the California State Treasury through which local governments may pool investments. Each district may invest up to \$65,000,000 in the Fund. Investments in LAIF are highly liquid, as deposits can be converted to cash within twenty-four hours without loss of interest. Investments in LAIF are secured by the full faith and credit of the State of California. Included in LAIF's investment portfolio are certain derivative securities or similar products in the form of asset-backed securities totaling \$1,448 million. LAIF's (and the District's) exposure to risk (credit, market or legal) is not currently available. Separate LAIF financial statements are available from the California State Treasurer's Office on the internet at www.treasurer.ca.gov.

Fair Value Measurements

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; level 2 inputs are significant other observable inputs; level 3 inputs are significant unobservable inputs.

The District's investment in the Local Agency Investment Fund of \$483,393 is valued using level 2 inputs by the Local Agency Advisory Board as of June 30, 2016.

Sativa – Los Angeles County Water District

**Notes to the Financial Statements
For the Year Ended June 30, 2016**

NOTE 3 – CAPITAL ASSETS

The District's changes in capital assets, net of depreciation for the year ended June 30, 2016, were as follows:

	Balance at June 30, 2015	Increases	Decreases	Balance at June 30, 2016
Capital assets, not being depreciated:				
Land	\$ 154,511	\$ -	\$ -	\$ 154,511
Total capital assets, not being depreciated	<u>154,511</u>	<u>-</u>	<u>-</u>	<u>154,511</u>
Capital assets, being depreciated:				
Water utility plant	1,876,542	213,749		2,090,291
Office improvements	201,031	-		201,031
Plant maintenance equipment	69,989	109,400		179,389
Office furniture and equipment	57,934	25,488		83,422
Vehicles	77,315	-		77,315
Total capital assets, being depreciated	<u>2,282,811</u>	<u>348,637</u>	<u>-</u>	<u>2,631,448</u>
Less accumulated depreciation for:				
Water utility plant	(1,192,531)	(58,682)	-	(1,251,213)
Office improvements	(129,552)	(7,994)	-	(137,546)
Plant maintenance equipment	(33,529)	(10,899)	-	(44,428)
Office furniture and equipment	(52,641)	(3,508)	-	(56,149)
Vehicles	(77,315)	-	-	(77,315)
Total accumulated depreciation	<u>(1,485,568)</u>	<u>(81,083)</u>	<u>-</u>	<u>(1,566,651)</u>
Total capital assets, being depreciated, net	<u>797,243</u>	<u>267,554</u>	<u>-</u>	<u>1,064,797</u>
Total capital assets, net	<u>\$ 951,754</u>	<u>\$ 267,554</u>	<u>\$ -</u>	<u>\$ 1,219,308</u>

NOTE 4 – COMPENSATED ABSENCES

Employees accumulate earned but unused vacation time, a portion of which will be paid to employees upon separation from the District. Current period additions to expense totaled \$18,049. Accrued balances at June 30, 2016 totaled \$32,036.

Sativa – Los Angeles County Water District

**Notes to the Financial Statements
For the Year Ended June 30, 2016**

NOTE 5 – EMPLOYEE RETIREMENT PLAN

On August 29, 2000, the District's Board of Directors hired a mutual fund company to begin a retirement plan (408K) for Sativa's full-time employees. The District and its employees began contributing to the plan on August 29, 2000.

To qualify for this plan, an employee must be 21 years old and have worked for the District for a minimum of three years. This is a simplified employee pension (SEP) and does not include employees covered under a collective bargaining agreement, nonresident aliens, or employees whose total compensation during the year is less than \$400.

The plan is currently arranged so the District and each employee will both contribute 5% into an IRA account. The District and the employees may contribute up to 15% of the compensation. They are not required to contribute to the plan each month. The District's matching contributions are based only on the first \$160,000 of compensation and limited annually to the lesser of \$30,000 or 15% of the eligible employee's compensation. The contribution is paid to the employee's IRA trustee, custodian, or insurance company (for an annuity contract).

NOTE 6 – JOINT POWERS INSURANCE AUTHORITY

The District is a member of the Special District Risk Management Authority (SDRMA). The Authority was formed under a joint powers agreement pursuant to California Government Code Sections 6500 et seq. and 900 et seq. to provide a general liability, automotive liability and property damage, and errors and omissions risk financing for the member districts. Contribution development is based on the particular characteristics of the member districts.

The following audited financial data is presented as of and for the fiscal year ended June 30, 2016 for SDRMA (most recent data available):

Total assets	\$ 110,682,834
Total deferred outflows	332,954
Total liabilities	58,754,717
Total deferred inflows	<u>117,687</u>
 Net position	 <u>\$ 52,143,384</u>
 Total revenues	 \$ 64,793,147
Total expenses	<u>61,339,889</u>
 Change in net position	 <u>\$ 3,453,258</u>

The District's precise share of the Authority's assets, liabilities, risk margin and changes therein during the fiscal year are not available.

**Notes to the Financial Statements
For the Year Ended June 30, 2016**

NOTE 6 – JOINT POWERS INSURANCE AUTHORITY, continued

Adequacy of Protection

During the past three fiscal years, none of the above programs of protection have had settlements or judgments that exceeded pooled or insured coverage. There have been no significant reductions in pooled or insured liability coverage from coverage in the prior year.

NOTE 7 – COMMITMENTS AND CONTINGENCIES

Commitments

The District has the following capital commitments for future lease payments relating to office equipment:

<u>Fiscal Year</u>	<u>Amount</u>
2017	\$6,974
2018	\$6,974
2019	\$6,974
2020	\$6,974

Contingencies

The District is subject to various claims and legal proceedings covering a wide range of matters that arise in the ordinary course of its business activities. Management believes that any liability that may ultimately result from the resolution of these matters will not have a material adverse effect on the financial condition or results of operations of the District.

The District initiated a legal action against one of its service providers alleging breach of contract, among other claims. The case was settled on February 6, 2017. The parties entered into a settlement agreement and the case is pending dismissal, in favor of the District.

A former contractor for the District has filed a demand for alleged unpaid services totaling \$6,888. The matter is at the investigative and negotiation stages, and management intends to vigorously defend these allegations. The ultimate outcome of this litigation cannot presently be determined. Accordingly, adjustments, if any, that might result from the resolution of this matter have not been reflected in the financial statements.

A former employee of the District submitted a demand letter in December 2015 alleging unpaid work hours, unpaid vacation, unpaid sick time benefits, and wrongful termination. The plaintiff's estate filed a complaint in August 2016, alleging that the District has failed to pay the former employee accrued vacation time of approximately \$47,725, unpaid accrued sick time of approximately \$29,718, unpaid work hours, and also alleging wrongful termination. The case is at the discovery stage, and management intends to vigorously defend these allegations. The ultimate outcome of this litigation cannot presently be determined. Accordingly, adjustments, if any, that might result from the resolution of this matter have not been reflected in the financial statements.

Sativa – Los Angeles County Water District

**Notes to the Financial Statements
For the Year Ended June 30, 2016**

The District filed a demand letter on January 20, 2015 to twelve prior and current Directors that they were paid Christmas bonuses improperly, dating back to 1991, totaling \$62,181. This litigation is at the demand stage, and management intends to pursue recovery vigorously. The ultimate outcome of this matter cannot presently be determined. Accordingly, adjustments, if any, that might result from the resolution of this matter have not been reflected in the financial statements.