

CARMEL AREA WASTEWATER DISTRICT
California

Annual Financial Report

**Year Ended
June 30, 2015**

CARMEL AREA WASTEWATER DISTRICT

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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 (the District) as of and for the year ended June 30, 2015, 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 2014 financial statements and, in our report dated October 3, 2014, 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, 2015, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in conformity 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 on pages 3-11, and the District's Schedules of Changes in the Net Pension Liability and Related Ratios, and Schedules of Contributions on pages 39-42 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 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 express no opinion on it.

Implementation of New Accounting Standards

As disclosed in the Note 2 to the financial statements, the Carmel Area Wastewater District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, during the fiscal year 2015.

Marcello & Company

Certified Public Accountants
Sacramento, California
October 2, 2015

MANAGEMENT'S DISCUSSION & ANALYSIS

*As Prepared by Management
(unaudited)*

Carmel Area Wastewater District
Management's Discussion and Analysis
June 30, 2015

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, 2015. 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 2014-15 are as follows:

- Total operating revenues increased 13.3% or \$857,388 over the prior year. Sewer user fees, the District's primary source of operating revenue, increased 12.1% 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 increased by 19.04% over prior year, or 28.5% over budget. Flow from Del Monte Forest increased to 31.4% compared with 28.5% in 2013-14. Treatment charges to PBCSD are based on flow; however the flow can be highly variable. Reimbursement from the Reclamation Project for O&M expenses was over budget 7.9% as staff spent more time than anticipated on managing production during drought conditions with membranes near the end of their life.
- Total non-operating revenues increased 9.6% over the prior year but were only 48.0% of 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 22.2% of the capital reimbursement projects were completed due to incomplete knowledge during budget process last year as to when the long term capital project would commence. The original plan estimated the construction would commence in the spring of 2015; however, work did not begin until July 2015. The largest item under non-operating revenues; property tax revenues, increased 6.04% over the prior year and 11.2% over budget as part of the District's long term strategy to pay-as-you-go its capital rehabilitation projects.
- Total operating expenses (including depreciation) increased 2.1% 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 7.5% over the prior year primarily because of greater cash balances (6.4%). As part of its plans to improve the infrastructure the District increased rates – we anticipate that Phase I of our CIP program will spend down reserves as much as 50%. Receivables were 45.0% higher than the prior year because of the timing of affiliate billing.
- Total Current Liabilities increased 10.3% over the prior year primarily due to an increase in Accounts Payable. 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. Total liabilities decreased 8.3% compared to 2013-14.

Carmel Area Wastewater District
Management's Discussion and Analysis
 June 30, 2015

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:

	<u>2015</u>	<u>2014</u>	<u>% Change</u>	<u>2013</u>	<u>% Change</u>
Assets					
Current Assets	\$ 25,234,336	\$ 23,462,550	7.6%	\$ 22,136,432	6.0%
Capital Assets net of depreciation	38,129,524	38,388,228	-0.7%	39,003,751	-1.6%
Bond issue costs	43,328	48,186	-10.1%	53,045	-9.2%
Other assets	-	-	n/a	-	n/a
Total Assets	<u>\$ 63,407,188</u>	<u>\$ 61,898,964</u>	2.4%	<u>\$ 61,193,228</u>	1.2%
Deferred Outflow of Resources	<u>877,000</u>	-	n/a	-	n/a
Total Assets & deferred outflow of resources	<u>\$ 64,284,188</u>	<u>\$ 61,898,964</u>	3.9%	<u>\$ 61,193,228</u>	1.2%

Carmel Area Wastewater District
Management's Discussion and Analysis
June 30, 2015

Liabilities						
Current Liabilities	\$ 587,226	\$ 531,934	10.4%	\$ 486,473	9.3%	
Long-term vac/sick pay	337,126	460,599	-26.8%	400,860	14.9%	
Net pension liability	(22,865)	-	n/a	-	n/a	
Long-term debt	<u>1,550,487</u>	<u>1,683,345</u>	-7.9%	<u>1,818,980</u>	-7.5%	
Total Liabilities	\$ 2,451,974	\$ 2,675,878	-8.4%	\$ 2,706,313	-1.1%	
Deferred Inflow of Resources	(1,080,933)	-	n/a	-		
Total Liabilities & Deferred Inflow	\$ 1,371,041	\$ 2,675,878	-48.8%	\$ 2,706,313		
Net Position						
Invested in capital assets, net of related debt	36,492,365	36,620,293	-0.3%	37,080,378	-1.2%	
Restricted	-	-	n/a	-	n/a	
Unrestricted	<u>26,420,782</u>	<u>22,602,793</u>	16.9%	<u>21,406,537</u>	5.6%	
Total net position	\$ 62,913,147	\$ 59,223,086	6.2%	\$ 58,486,915	1.3%	
Total Liabilities & Net Position	\$ 64,284,188	\$ 61,898,964	3.9%	\$ 61,193,228	1.2%	

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	\$ 3,967,538
Current Year O&M (2014-15)	6,538,038
Current Year Capital (2014-15)	11,442,950
Rate Stabilization Fund	644,682
LAIIF Investment Fund	1,107,496
Compensated Accruals Fund	<u>449,502</u>
Total	<u><u>\$ 24,150,206</u></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.

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

Carmel Area Wastewater District
Management's Discussion and Analysis
June 30, 2015

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 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 gal 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.

The planning and design work of the last two years is falling into place – construction for Phase I of the Treatment Plant rehab is slated to last 700 days.

Carmel Area Wastewater District
Management's Discussion and Analysis
June 30, 2015

A summary of changes in net position is presented below:

	<u>2015</u>	<u>2014</u>	<u>% Change</u>	<u>2013</u>	<u>% Change</u>
Changes in Net Position:					
Operating revenues	\$ 7,323,138	\$ 6,465,750	13.3%	\$ 5,909,528	9.4%
Non-operating revenues	2,574,564	2,361,583	9.0%	2,046,291	15.4%
<i>total revenues</i>	9,897,702	8,827,333	12.1%	7,955,819	11.0%
Operating expenses	5,812,771	5,655,466	2.8%	5,103,861	10.8%
Non-operating expenses	93,400	99,572	-6.2%	109,903	-9.4%
Depreciation expense	2,456,943	2,437,836	0.8%	2,444,294	-0.3%
<i>total expenses</i>	8,363,114	8,192,874	2.1%	7,658,058	7.0%
Income before Cap					
Contributions	1,534,588	634,459	141.9%	297,761	113.1%
Capital Contribution	174,675	101,712	71.7%	5,119	1887.0%
Change in net position	1,709,263	736,171	132.2%	302,880	143.1%
Net position, beginning	<u>\$ 59,223,086</u>	<u>\$ 58,486,915</u>	1.3%	<u>\$ 58,184,035</u>	0.5%
Restatements	1,980,798	-		-	
Net position, ending	<u>\$ 62,913,147</u>	<u>\$ 59,223,086</u>	6.2%	<u>\$ 58,486,915</u>	1.3%

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 is not charging current rate payers for the depreciation expense on the District's capital assets, i.e. Wastewater treatment plant and distribution system. We initiated the process of including a separate line item for replacement costs in the annual revenue requirements and have added roughly \$750,000 cumulative of total replacement cost to date over the last three years. We will continue increasing this line item in the coming years to until we reach the appropriate point that supports replacement of our capital assets.

Fiscal Year	Operating Loss	Depreciation
2008	(\$ 914,145)	\$1,388,626
2009	(\$ 855,668)	\$1,410,652
2010	(\$2,188,235)	\$2,475,304
2011	(\$1,837,490)	\$2,470,000
2012	(\$1,802,671)	\$2,473,035
2013	(\$1,638,602)	\$2,444,294
2014	(\$1,627,552)	\$2,437,836
2015	(\$946,576)	\$2,452,085

The District's net position increased by \$3.6M or 6.2% 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's assets exceeded liabilities by \$62M as of June 30, 2015. Net position, over time, may serves as a useful indicator of an entity's financial position. The District's operations are strong enough to support our plan to "pay-as-you-go" for Phase I of our Treatment Plant Rehabilitation and our single employer defined benefit plan is overfunded as of year-end.

Carmel Area Wastewater District
Management's Discussion and Analysis
June 30, 2015

Capital Assets Activity

In addition to the major CIP project under design by Kennedy/Jenks Engineers there are multiple in-house projects the District is managing.

2014-15 significant asset additions include:

- **Locker Room** \$ 367,534
The existing locker room was in a state of serious disrepair and the design engineers determined that it would be better suited to convert to an electrical hub and build a new locker room across from the current lunch room. The locker room has both male and female facilities, was designed by a local Carmel architect, and utilizes similar materials as used in other structures around the facility.

- **Closed Circuit Television Van (CCTV)** \$ 225,992
The Board awarded a contract to the Jack Doheny Company for the purchase of a replacement CCTV camera van. Jack Doheny Company is the vendor for IBAK, which is the machine that met the District's specifications. The previous CCTV was nearly 30 years old and in very poor condition. The Board agreed to sell it to the City of Soledad for \$25,000.

- **Plant Lighting Project** \$ 160,230
This project was completed on time and on budget. CIP #4 was for replacement of fixtures in the Generator Building, Influent Pump Station, Lower Influent Wet Well, Effluent Building upper and lower areas, Chlorine Building, Pipe Gallery, Belt Press, and Digester Heating Building. CIP #23 was to upgrade the lighting at the Maintenance Shop. The new LED lighting operates on 75,380 watts of power, based on an average 8 hour lighting day at an average PG&E cost of .085 Kwh which equates to \$1,530/month. A total of 230,000 watts of plant lighting was changed out, which is a significant energy savings and provides a safer and more secure workplace.

- **Study SCADA, PLC and Communication System** \$ 70,777
The District engaged Calcon Systems to supply Kennedy/Jenks with the current status of our SCADA and PLC system. This information is necessary as all PLC will eventually be upgraded in the rehabilitation efforts. PLC 5 are now obsolescent and no longer made. Calcon Systems was also charged with evaluating the SCADA system and it's functioning – over many years multiple changes have been made and the documentation was not always complete.

- **Waste Gas Burner Rehab** \$ 70,229
The Phase I Rehabilitation Project includes a component to completely replace and bring the waste gas burner up to current air quality standards. Unfortunately that will not occur until near the end of the two year construction project and the existing waste gas burner was in serious need of rehabilitation. The igniter and pressure regulator were replaced.

- **Design & construction plans for Calle La Cruz force main** \$ 45,797
Design of a 6" HDPE replacement force main to cross the Carmel Lagoon from the Calle la Cruz pump station to connect with the existing force main. This project is approximately 400 ft. of new piping and will "piggy-back" on the replacement of the 24" outfall pipeline. Currently the project is waiting for the EIR from Monterey County on the Hwy One Causeway Project which will

Carmel Area Wastewater District
Management's Discussion and Analysis
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redirect flows from the Carmel River to the South arm of the Lagoon – potentially conflicting with our pipeline.

- **Total Organic Carbon Analyzer** \$ 45,203
Total organic carbon (TOC) is the amount of carbon found in an organic compound and is often used as a non-specific indicator of water quality. A typical analysis for TOC measures both the total carbon present and the so-called “inorganic carbon,” the latter representing the content of dissolved carbon dioxide and carbonic acid salts. TOC analysis is a quick and accurate alternative to the classical but lengthier biological oxygen demand and chemical oxygen demand tests traditionally reserved for assessing the pollution potential of wastewater.

- **Phase I – Treatment Plant Rehabilitation Project** \$ 688,177
As indicated earlier, Phase 1 of the Treatment Plant Rehabilitation Project involves multiple areas of the facility. We have spent the past three years planning and building the most expeditious and cost-effective plan possible. We believe we have developed a customized, yet cost-effective solution to improve the current facility and with the right technologies increase reliability, minimize energy costs, protect the environment, and transition into the 21st century.

Debt Service Activity

As of June 30, 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 the year ending June 30, 2015 the District made a principal payment on the bond of \$125,000 and \$89,338 in interest. Prior year 2014 principal payment was \$135,000 with \$94,150 in interest. The Highlands Project bond is the District’s only outstanding bond obligation; the District had no debt service obligations prior to 2004.

In November 2009 the District entered into a five year lease agreement for the purchase of an Ion Chromatograph for the CAWD/PBCSD Reclamation Project in the amount of \$102,106. Principal and interest payments are \$1,968 per month at 5.87% per annum. That lease was paid in full this fiscal year. Staff estimates that the ion chromatograph will need to be replaced in two years – it is fully reimbursable by the Reclamation Project.

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/Variations

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.

Carmel Area Wastewater District
Management's Discussion and Analysis
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2014-15 Major variances can be described as follows:

- Sewer service fees were 4.8% or \$251K over budget – the rate model provided for an additional \$750K to be allocated for future capital expenses.
- PBCSD treatment fees were 28.5% over budget because flow increased to 31.4% compared with 28.5% the prior year even though Treatment Plant expenses were 3.65% under budget.
- Operating revenues were 8.9% higher than budget, however, non-operating revenues fell short by 51.9% because the anticipated construction on Phase I did not commence until July 1, 2015.
- The District had a \$560K Unfunded Accrued Liability with CalPERS that it decided to pay off with cash from reserves. Had the District opted to pay over 30 years the total payment required would have been \$1.49M. This expenditure resulted in a budget variance to each department.
- Collections budget was 4.6% over budget, the primary reasons being expenditures on contractual services and repairs. Staff found some of the issues were more expedient and cost effective to outsource.
- The Treatment Plant was 3.6% under budget overall. The most significant budget overage was Employee Benefits, or CalPERS costs. Other overages were related to rehabilitation and repair efforts around the facility.
- General & Administrative Expenses were 11.6% under budget. As with the Treatment Plant the most significant budget overage was in Employee Benefits or CalPERS costs.

Other Significant Matters

- The District commenced another two year employee negotiated cycle with a 2.6% COLA for each year and a 1% increase in the CalPERS Classic Employee Contribution for each year.
- The anticipated move to CalPERS health insurance did not materialize because of a significant premium increase. The District opted to go with a JPA that was originally formed to serve school districts but has now expanded to all public entities. Health insurance costs remain a significant concern because of their continued volatility.

Economic Factors and Next Year's Budget and Rates

The financial condition of the District is remarkably solid considering the scope of our projected rehabilitation projects. Over 74% 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 17% 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 is projected to extend 700 days. We feel we made a prudent decision in hiring Kennedy/Jenks

Carmel Area Wastewater District
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Consultants, the design engineer to continue on in the capacity of construction manager and site engineer. Kennedy/Jenks' familiarity with the design has made them an invaluable partner and we share a bit of history inasmuch as they were the engineer of record during the last major construction effort at the facility in the mid-1980s. Due to careful planning, we will pay cash for this first phase from reserves set aside for this purpose.

We continue to work on improvements in the Collection System as well and anticipate completion of a formal 20 year long term plan by spring 2016. The Carmel Meadows gravity line replacement project is under design as is the Carmel Lagoon force main replacement project. We anticipate working through environmental and permitting issues in 2015-16.

Our initial plan was to increase the capital component of the rate model by \$250K each year over the next five years, this year was the fourth year, but we decided to defer including additional capital costs. This will push our original plan out an additional year. While we originally felt we could do all the work on a pay-as-you-go model, we have since broadened the scope of work and acknowledge that we will need to analyze and consider borrowing funds. We believe that with the completion of the Collection System Long Term Capital Plan we be able to refine our estimates even more tightly.

In addition to the Long Term 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. CAWD believes that any barrier may have a negative impact on its facilities and has employed a hydrology firm to examine potential flooding. We believe that we may have to negotiate with the County regarding ongoing sandbar management in the Lagoon to protect our facility. The County has also 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, 2015 and 2014

Page 1 of 2

*for comparative
purposes only*

Assets	<u>2015</u>	<u>2014</u>
Current Assets		
Cash and investments	\$ 24,150,206	\$ 22,680,073
Accounts receivable	10,927	9,789
Accounts receivable - affiliates	1,035,297	711,697
Prepaid expenses	37,906	60,991
Total current assets	<u>25,234,336</u>	<u>23,462,550</u>
Noncurrent Assets		
Capital assets not being depreciated	3,299,578	1,543,050
Capital assets, net of depreciation	34,829,946	36,845,178
Total noncurrent assets	<u>38,129,524</u>	<u>38,388,228</u>
Other Assets		
Deposits	-	-
Bond issuance costs, net of amortization	43,328	48,186
Total other assets	<u>43,328</u>	<u>48,186</u>
Total assets	63,407,188	61,898,964
Deferred Outflows of Resources		
Deferred pensions	<u>877,000</u>	<u>-</u>
Total assets and deferred outflows of resources	<u><u>\$ 64,284,188</u></u>	<u><u>\$ 61,898,964</u></u>

The accompanying notes are an integral part of these financial statements

CARMEL AREA WASTEWATER DISTRICT
Statements of Net Position
June 30, 2015 and 2014

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*for comparative
purposes only*

Liabilities and Net Position	2015	2014
Current Liabilities		
Accounts payable - trade	\$ 323,297	\$ 126,928
Accrued payroll and benefits	-	95,581
Accrued bond interest	21,553	23,116
Revenue bonds - current	130,000	125,000
Capital lease - current	-	7,776
Compensated absences - current	112,376	153,533
Total current liabilities	587,226	531,934
Noncurrent Liabilities		
Amounts due in more than one year:		
Revenue bonds payable	1,525,000	1,655,000
Compensated absences	337,126	460,599
Net pension liability	(22,865)	-
Bond issuance premium, net of amortization	25,487	28,345
Total noncurrent liabilities	1,864,748	2,143,944
Total liabilities	2,451,974	2,675,878
Deferred Inflows of Resources		
Deferred pensions	(1,080,933)	-
Total liabilities and deferred inflows of resources	1,371,041	2,675,878
Net Position		
Invested in capital assets, net of related debt	36,492,365	36,620,293
Restricted	-	-
Unrestricted	26,420,782	22,602,793
Total net position	62,913,147	59,223,086
Total liabilities, deferred inflows, and net position	\$ 64,284,188	\$ 61,898,964

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, 2015 and 2014

		<i>for comparative purposes only</i>
	2015	2014
Operating Revenue		
Sewer service fees	\$ 5,446,631	\$ 4,855,584
Treatment fees, PBCSD	1,285,641	1,080,050
CAWD/PBCSD Reclamation Project reimbursements	557,968	502,740
Connection fees	19,415	16,165
Permits and inspection fees	13,200	11,211
Other	283	-
Total operating revenue	7,323,138	6,465,750
Operating Expenses		
Sewage collection	1,281,334	1,455,477
Sewage treatment and disposal	5,417,511	5,102,902
General and administrative	1,044,069	1,032,183
CAWD/PBCSD Reclamation Project expenses	526,800	502,740
Total operating expenses	8,269,714	8,093,302
Operating income (loss)	(946,576)	(1,627,552)
Nonoperating Revenue (Expenses)		
Property tax revenue	1,621,571	1,529,137
Investment earnings (loss)	103,881	83,889
Highlands Inn assessment revenue	216,949	233,688
Reimbursement from PBSCD for 1/3 share of secondary treatment plant improvements	532,506	448,321
Interest and fiscal expenses	(91,400)	(97,572)
Amortization of bond issuance costs	(4,859)	(4,859)
Amortization of bond premium	2,859	2,859
Other	99,657	66,548
Total nonoperating revenue (expenses)	2,481,164	2,262,011
Income (loss) before capital contributions	1,534,588	634,459
Capital contributions	174,675	101,712
Change in Net Position	1,709,263	736,171
Net Position - beginning	59,223,086	58,486,915
Prior period adjustment (note 17)	1,980,798	-
Net Position - as restated	61,203,884	58,486,915
Net Position - end of year	\$ 62,913,147	\$ 59,223,086

The accompanying notes are an integral part of these financial statements

CARMEL AREA WASTEWATER DISTRICT
Statements of Cash Flows
Years Ended June 30, 2015 and 2014

Page 1 of 2

*for comparative
purposes only*

Cash Flows Provided By (Used For):

Operating Activities

	2015	2014
Cash received from customers	\$ 6,998,400	\$ 6,086,765
Cash payments for operating supplies	(2,167,603)	(2,066,103)
Cash payments for personnel costs	(3,690,783)	(3,517,960)
Net cash provided (used)	1,140,014	502,702

Noncapital Financing Activities

Property tax revenue	1,621,571	1,529,137
Highlands Inn assessment revenue	216,949	233,688
Net cash provided (used)	1,838,520	1,762,825

Capital and Related Financing Activities

Purchase of property and equipment	(1,486,200)	(1,271,233)
Principal paid on capital lease	(7,776)	(22,438)
Interest and fiscal expenses	(92,963)	(99,259)
Principal paid on revenue bonds	(125,000)	(135,000)
Other cash revenue	99,657	65,501
Net cash provided (used)	(1,612,282)	(1,462,429)

Investing Activities

Investment earnings (loss)	103,881	83,889
Net cash provided (used)	103,881	83,889

Increase (decrease) in cash	1,470,133	886,987
Cash and cash equivalents - beginning	22,680,073	21,793,086
Cash and cash equivalents - end of year	\$ 24,150,206	\$ 22,680,073

Noncash investing and capital activities:

Contribution of capital assets from affiliate	\$ 174,675	\$ 101,712
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The accompanying notes are an integral part of these financial statements

CARMEL AREA WASTEWATER DISTRICT
Statements of Cash Flows
Years Ended June 30, 2015 and 2014

Page 2 of 2

*for comparative
purposes only*

	2015	2014
Operating Activities Analysis		
Operating Income (Loss)	\$ (946,576)	\$ (1,627,552)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Add Depreciation noncash expense	2,452,085	2,437,836
Changes in current assets and liabilities:		
(increase) decrease in receivables	(1,138)	849
(increase) decrease in affiliate receivables	(323,600)	(379,834)
(increase) decrease in prepaid expenses	23,085	(60,146)
increase (decrease) in trade payables	196,369	52,207
increase (decrease) in accrued payroll	(95,581)	(310)
increase (decrease) in compensated absences	(164,630)	79,652
Net cash provided (used)	\$ 1,140,014	\$ 502,702

The accompanying notes are an integral part of these financial statements

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2015

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 - Bond Issuance Costs
- Note 8 - Payables
- Note 9 - Deferred Compensation Plan
- Note 10 - Long-term Debt Obligations
- Note 11 - Postemployment Benefits Other than Pensions
- Note 12 - Single Employer Defined Benefit Pension Plan
- Note 13 - Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
- Note 14 - Risk Management
- Note 15 - Future Accounting Pronouncements
- Note 16 - Subsequent Events
- Note 17 - Prior Period Adjustment

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2015

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 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 treatment and disposal expenses plus a portion of general and administrative expenses as the agreed upon annual fee for service. The agreement has been modified several times over the years, and currently operates under the 1994 amended agreement.

Under the same agreement, PBCSD also reimburses the District for one-third the cost of capital assets purchased or constructed for sewage treatment and disposal as part of the agreed upon annual fee for service. 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 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.

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

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2015

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. CAWD is such an enterprise fund.

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.

Presentation

The basic financial statements are prepared using the economic resource measurement focus and 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.

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 and accounting principles generally accepted in the United State of America (GAAP) 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 excess of estimated current bond requirements of the District are deposited in the Monterey County account

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2015

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.

Restricted Assets

When applicable, 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 sewer facilities or as restricted by bond covenants.

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, 2015.

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 operations 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

Bond Issuance Premiums and Issuance Costs

On the statement of net position, bond issuance premiums are reported as noncurrent liabilities and are being amortized on the straight-line basis over the bond redemption period. Bond issuance costs are reported as other assets and are being amortized over the term of related debt.

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

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2015

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 other obligations, such as capital lease purchase agreements, are reported as liabilities on the statement of net position either as current if debt reduction payments are to be made within 12 months of the fiscal year-end, otherwise as noncurrent.

Pensions

In the statement of net position, and the statement of revenue, expenses and change in net position, retirement plans (pensions) 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. 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.

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2015

Net Position

In the statement of net position, such amounts are classified in the following categories:

- Invested in capital assets, net of related debt - this component consists of all capital assets net of accumulated depreciation, and reduced by outstanding debt that is attributable to the acquisition, construction, or improvement of the assets.
- Restricted net position - this component consists of amounts restricted by external creditors, grantors, contributors, or government laws and regulations.
- Unrestricted net position - this component consists of all other net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted net assets.”

Operating vs. Nonoperating Revenue and Expenses

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. When an expense is incurred for purposes for which there are both restricted and unrestricted net position available, it is the District’s policy to apply those expenses to restricted net position to the extent such are available and then to unrestricted net position. Nonoperating revenue, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

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.
- 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.

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2015

- 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.

New Accounting Pronouncements

The following Governmental Accounting Standards Board (GASB) Statements have been implemented in the current financial statements:

Statement No. 68 "*Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27.*" The provisions of this statement revise existing standards of financial reporting for most governments that provide their employees with pension benefits. The Statement establishes reporting requirements of the net pension plan liability in the government-wide financial statements, how to measure pension liabilities, and presentation of the financial information and disclosures related to the employer. This Statement is effective for periods beginning on or after June 15, 2014.

Statement No. 71 "*Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68.*" The objective of this statement is to address an issue regarding application of the transition provisions of Statement 68 relating to amounts associated with contributions made by a local government employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of this statement are required to be applied simultaneously with the provisions of Statement 68.

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, and one from 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

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2015

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 CAWD and a reservoir to hold additional reclaimed water at PBCSD. 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.

The Project was originally financed in December 1992 by Certificates of Participation in the amount of \$33,900,000 which were executed and delivered at the direction of the MPWMD. Per the issuance agreement, the MPWMD agreed to provide the funds necessary to construct and operate the Project, and own the reclaimed water for the purpose of resale of such 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

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. At June 30, 2014 approximately \$27 million had 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.

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2015

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.

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	\$ 24,150,206
Cash and investments are comprised of the following:	
Deposits with financial institutions:	
Checking accounts	\$ 606,454
State investment pool	1,107,497
Monterey County investment pool	22,436,255
	\$ 24,150,206

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, 2015, the County Pool had approximately \$1.1 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, 2015, PMIA had approximately \$69 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

CARMEL AREA WASTEWATER DISTRICT
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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.

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	\$ 22,436,255	14 months average maturity, 0.72% yield
State investment pool	\$ 1,107,497	7 months average maturity, 0.27% 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, 93% 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

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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 June 30, 2015, the District had \$471,763 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.

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	\$	9,854
User fees		1,073
total trade receivables	\$	<u>10,927</u>
CAWD/PBCSD Reclamation Project	\$	117,150
Pebble Beach CSD - User fees		384,612
Pebble Beach CSD - Capital		533,535
total affiliate receivables	\$	<u>1,035,297</u>

Note 6 - Capital Assets

Capital assets activity for the year consists of the following:

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	Beginning Balance	Additions/ Completions	Retirements/ Adjustments	Ending Balance
<i><u>Non-depreciable Assets</u></i>				
Land and land rights	\$ 308,060	\$ -	\$ -	\$ 308,060
Construction-in-progress	1,234,990	1,756,528	-	2,991,518
totals	<u>1,543,050</u>	<u>1,756,528</u>	<u>-</u>	<u>3,299,578</u>
<i><u>Depreciable Assets</u></i>				
Treatment structures	50,401,002	-	-	50,401,002
Treatment equipment	6,789,010	49,095	-	6,838,105
Collection pump stations	972,206	49,908	-	1,022,114
Collection office	49,907	(49,907)	-	-
Collection pump equipment	732,655	5,352	-	738,007
Sewers and appurtenances	10,651,410	23,594	-	10,675,004
Disposal facilities	1,126,273	-	-	1,126,273
Other assets	3,539,703	131,552	-	3,671,255
totals	<u>74,262,166</u>	<u>209,594</u>	<u>-</u>	<u>74,471,760</u>
<i><u>Accumulated Depreciation</u></i>	<u>(37,416,988)</u>	<u>(2,452,085)</u>	<u>227,259</u>	<u>(39,641,814)</u>
Total Capital Assets, net	<u>\$ 38,388,228</u>	<u>\$ (485,963)</u>	<u>\$ 227,259</u>	<u>\$ 38,129,524</u>

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

Sewage collection	\$ 326,097
Sewage treatment and disposal	2,095,219
General and administrative	30,769
Other - adjustments, sales, disposals, write-downs	-
	<u>\$ 2,452,085</u>

Note 7 - Bond Issuance Costs

Bond issuance costs in the amount of \$97,166 are reported net of accumulated amortization of \$53,838 on the statement of net assets, and are being amortized over the life of the related debt in the amount of \$4,859 per year.

Note 8 - Payables

Payables at year end consist of the following:

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Construction, Engineering and Consultants	\$	286,705
Legal and Accounting		2,815
Other Vendors		33,777
		33,777
	\$	323,297

Note 9 - Deferred Compensation Plan

The District has 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, administers the plan, which is in conformity with Section 457 of the Internal Revenue Code.

Note 10 - Long-term Debt Obligations

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.

Bond Premium

Bond issuance premiums in the amount of \$57,166 are reported net of accumulated amortization of \$31,679 on the statement of net assets, and are being amortized over the life of the related debt in the amount of \$2,858 per year.

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.

Scheduled Payments

Future annual principal and interest requirements are as follows:

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Year Ending June 30,	Revenue Bonds, Series 2004-A		
	Principal	Interest	Total
2016	\$ 130,000	\$ 82,963	\$ 212,963
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
2021-2025	930,000	126,786	1,056,786
totals	\$ 1,655,000	\$ 469,056	\$ 2,124,056

Long-term Debt Activity for the year was as follows:

Business-type Activities	Beginning	Additions	Reductions	Ending	Due Within
	Balance			Balance	One Year
Revenue bonds	\$ 1,780,000	\$ -	\$ (125,000)	\$ 1,655,000	\$ 130,000
Capital lease purchase	7,776	-	(7,776)	-	
Compensated absences	614,132	-	(164,631)	449,501	\$ 112,375
Bond premium, net	28,345	-	(2,858)	25,487	
totals	\$ 2,430,253	\$ -	\$ (300,265)	\$ 2,129,988	

Note 11 - 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% 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 subaccounts 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 subaccount and will be made as an equal dollar amount for each employee. Contributions to fund health care insurance premium subaccounts 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, 2015 the District contributed \$20,905 to the plan.

Note 12 - 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

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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.

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, 2015 were \$216,420 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, 2015, the District reported a Pension Liability (Overfunding) of the Plan in the amount of \$(757,344).

At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to this pension plan from the following sources:

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	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of assumptions	\$ -	\$ 986,399
Net difference between projected and actual earnings on pension plan investments	-	7,979
Differences between expected and actual experience	<u>94,755</u>	<u>-</u>
Totals	<u>\$ 94,755</u>	<u>\$ 994,378</u>

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,	
2016	\$ (72,035)
2017	(72,035)
2018	(72,035)
2019	(72,034)
2020	(70,040)
thereafter	<u>(541,444)</u>
	<u>\$ (899,623)</u>

C. Actuarial Assumptions

The total pension liability for this plan in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions:

	<u>Miscellaneous Plan</u>
Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost
Actuarial Assumptions:	
Discount Rate	6.00%
Inflation	2.50%
Payroll Growth	3.50%
Projected Salary Increase	3.50%
Investment Rate of Return	4.50%

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.

Note 13 - Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

A. General Information about the Plan

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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.

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, 2015, are summarized as follows:

	Miscellaneous Plan	
	Prior to January 1, 2013	On or after January 1, 2013
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, 2015, the contributions recognized as part of pension expense for this plan were as follows:

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Contributions – unfunded liability payment by employer	\$560,720
Contributions – employer	\$242,712
Contributions – employee (partially paid by employees)	\$ 56,235

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

As of June 30, 2014, the District reported net pension liabilities for its Proportionate Share of the Net Pension Liability of the Plan in the amount of \$(22,865).

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, 2014, 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, 2013 rolled forward to June 30, 2014 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’s proportionate share of the net pension liability as of June 30, 2013 and 2014 was as follows:

Proportion - June 30, 2013	0.026227%
Proportion - June 30, 2014	0.025448%
Change: Increase (Decrease)	0.000779%

At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to this pension plan from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to the measurement date	\$ 803,432	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	(77,422)	(323,589)
Changes in proportion and differences between District contributions and proportionate share of contributions	56,235	-
Differences between expected and actual experience	-	-
Totals	<u>\$ 782,245</u>	<u>\$ (323,589)</u>

\$782,245 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to this pension plan will be recognized as pension expense as follows:

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Year Ended June 30,	
2016	\$ 74,040
2017	69,802
2018	52,854
	<u>\$ 196,696</u>

C. Actuarial Assumptions

The total pension liability for this plan in the June 30, 2013 actuarial valuation was determined using the following actuarial assumptions:

	<u>Miscellaneous Plan</u>
Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry-Age Normal Cost
Actuarial Assumptions:	
Discount Rate	7.50%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	3.3% - 14.2% (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 7.50% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 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

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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. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our 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. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1-10 (1)</u>	<u>Real Return Years 11+ (2)</u>
Global Equity	47.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	12.00%	6.83%	6.95%
Real Estate	11.00%	4.50%	5.13%
Infrastructure and Forestland	3.00%	4.50%	5.09%
Liquid Assets	2.00%	-0.55%	-1.05%

(1) an expected inflation rate of 2.5% is used for this period

(2) an expected inflation rate of 3.0% is used for this period

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%	Current Discount	Discount Rate +1%
	<u>6.50%</u>	<u>Rate 7.50%</u>	<u>8.50%</u>
Misc-Classic	\$ 1,120,616	\$ 628,962	\$ 220,936
Misc-PEPRA	\$ 274	\$ 154	\$ 54

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Note 14 - 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 and additional policies purchased from commercial insurance companies for general liability claims, and for excess workers' compensation claims. The District paid \$62,809 for workers compensation and \$54,876 for property and liability premiums during the fiscal year. The District's share of CSRMA year-end assets, liabilities, and retained earning has not been calculated by the CSRMA.

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 15 - Future Accounting Pronouncements

GASB Statements Nos. 72-76 listed below will be implemented in future financial statements:

Statement No. 72 "Fair Value Measurement and Application"

The provisions of this statement are effective for financial statements for reporting periods beginning after June 15, 2015.

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

The provisions of this statement are effective for fiscal years beginning after June 15, 2015 - except those provisions that address employers and governmental non-employer contributing entities for pensions that are not within the scope of GASB Statement No. 68, which are effective for fiscal years beginning after June 15, 2016.

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

The provisions of this statement are effective for fiscal years beginning after June 15, 2016.

Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans"

The provisions of this statement are effective for fiscal years beginning after June 15, 2017.

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

The provisions of this statement are effective for reporting periods beginning after June 15, 2015.

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2015

Note 16 - Subsequent Events

The management of the District has reviewed the results of operations for the period from its year end June 30, 2015 through October 30, 2015, 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 17 - Prior Period Adjustment

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.

REQUIRED SUPPLEMENTARY INFORMATION

(unaudited)

CARMEL AREA WASTEWATER DISTRICT
Required Supplementary Information
Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
Year Ended June 30, 2015

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 (called plan net position), 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.

CARMEL AREA WASTEWATER DISTRICT
Required Supplementary Information
Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
Year Ended June 30, 2015

Schedule of Changes in the Net Pension Liability and Related Ratios

<u>Total Pension Liability</u>	2015
Service Cost	\$ 264,205
Interest on total pension liability	260,447
Differences between expected and actual experience	(81,053)
Changes in assumptions	-
Changes in benefits	(61)
Benefit payments, including refunds of employee contributions	(235,329)
Net change in total pension liability	208,209
Total pension liability - beginning	3,498,740
Total pension liability - ending	\$ 3,706,949
<u>Plan Fiduciary Net Position</u>	
Contributions - employer	\$ (729,252)
Contributions - employee	(130,414)
Net investment income	266,819
Benefit payments	1,031,538
Net change in plan fiduciary net position	438,691
Plan fiduciary net position - beginning	2,639,142
Plan fiduciary net position - ending	\$ 3,077,833
Net Pension Liability (7.5% discount rate)	\$ 629,116
Plan fiduciary net position as a percentage of the total pension liability	0.01011%
Covered employee payroll	\$ 1,868,031
Net pension liability as percentage of covered employee payroll	38.25%

Schedule of Contributions

Actuarially determined contribution	\$ 146,562
Contributions in relation to the actuarially determined contributions	(146,562)
Contribution deficiency (excess)	\$ -
Covered - employee payroll	\$ 1,868,031
Contributions as a percentage of covered employee payroll	14.64%

CARMEL AREA WASTEWATER DISTRICT
Required Supplementary Information
Single Employer Defined Benefit Pension Plan
Year Ended June 30, 2015

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 (called plan net position), 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, 2014-15, 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, 2014. The employer did however make a contribution in the amount of \$216,420 due to their conservative fiscal practices.

CARMEL AREA WASTEWATER DISTRICT
Required Supplementary Information
Single Employer Defined Benefit Pension Plan
Year Ended June 30, 2015

Schedule of Changes in the Net Pension Liability and Related Ratios

<u>Total Pension Liability</u>	2015
Service Cost	\$ -
Interest on total pension liability	234,721
Differences between expected and actual experience	103,803
Changes in assumptions	-
Changes in benefits	(907,311)
Benefit payments, including refunds of employee contributions	(73,846)
Net change in total pension liability	(642,633)
Total pension liability - beginning	5,252,947
Total pension liability - ending	<u>\$ 4,610,314</u>
<u>Plan Fiduciary Net Position</u>	
Contributions - employer	\$ 216,420
Contributions - employee	-
Net investment income - expected	227,644
Net investment income - gain/(loss)	9,974
Benefit payments	(73,846)
Net change in plan fiduciary net position	380,192
Plan fiduciary net position - beginning	4,987,466
Plan fiduciary net position - ending	<u>\$ 5,367,658</u>
Net Pension Liability/(Overfunding) (6.0% discount rate)	<u>\$ (757,344)</u>
Plan fiduciary net position as a percentage of the total pension liability	115.00%
Covered employee payroll	\$ 785,681
Net pension liability as percentage of covered employee payroll	0.00%

Schedule of Contributions

Actuarially determined contribution	\$ -
Contributions in relation to the actuarially determined contributions	(216,420)
Contribution deficiency (excess)	<u>\$ (216,420)</u>
Covered - employee payroll	\$ 785,681
Contributions as a percentage of covered employee payroll	27.55%

OTHER SUPPLEMENTARY INFORMATION

CARMEL AREA WASTEWATER DISTRICT
Schedule I - Revenue and Expenses
Budget to Actual - Budgetary Basis
Year Ended June 30, 2015

	<u>Final</u> <u>Budget</u>	<u>Actual</u>	<u>Variance</u> <u>Favorable</u> <u>(Unfavorable)</u>
<u>Operating revenue:</u>			
Sewer service fees	\$ 5,194,671	\$ 5,446,631	\$ 251,960
PBCSD treatment fees	1,000,000	1,285,641	285,641
Reclamation Project O&M reimbursements	516,945	557,968	41,023
Connection fees	5,000	19,415	14,415
Permits and inspection fees	5,000	13,200	8,200
Other operating revenue	-	283	283
Total operating revenue	<u>6,721,616</u>	<u>7,323,138</u>	<u>601,522</u>
<u>Operating expenses:</u>			
Sewage collection	1,244,600	1,281,334	(36,734)
Sewage treatment and disposal	5,622,500	5,417,511	204,989
General and administrative	1,181,250	1,044,069	137,181
Reclamation Project O&M expenses	516,945	526,800	(9,855)
Total operating expenses	<u>8,565,295</u>	<u>8,269,714</u>	<u>295,581</u>
Operating loss	<u>(1,843,679)</u>	<u>(946,576)</u>	<u>897,103</u>
<u>Non-operating revenue and (expenses):</u>			
Investment revenue	70,000	103,881	33,881
Property tax revenue	1,457,768	1,621,571	163,803
Highlands assessment revenue	216,938	216,949	11
Reimbursement from PBCSD for 1/3 share of secondary treatment plant improvements	2,396,417	532,506	(1,863,911)
Lease payments	(7,871)	(7,871)	-
Bond Service - Principal	(125,000)	(125,000)	-
Bond Service - Interest	(91,938)	(91,400)	538
Amortization of bond issuance costs	(4,860)	(4,859)	1
Amortization of bond premium	-	2,859	2,859
Other non-operating revenue (expenses)	974,945	99,657	(875,288)
Total non-operating revenue and (expenses)	<u>4,886,399</u>	<u>2,348,293</u>	<u>(2,538,106)</u>
Net income (loss)	<u>\$ 3,042,720</u>	<u>\$ 1,401,717</u>	<u>\$ (1,641,003)</u>
 <u>GAAP reconciling items:</u>			
Principal portion of lease payment		7,871	
Principal portion of debt service		125,000	
Income (loss) before capital contributions		<u>\$ 1,534,588</u>	

CARMEL AREA WASTEWATER DISTRICT
Schedule II - Operating Expenses by Department
Year Ended June 30, 2015

	<u>Collection</u>	<u>Treatment & Disposal</u>	<u>General & Administrative</u>	<u>Reclamation Project</u>	<u>Total</u>
Salaries & payroll taxes	\$ 361,023	\$ 1,063,050	\$ 425,105	\$ 517,413	\$ 2,366,591
Employee benefits	228,196	755,781	306,751	-	1,290,728
Contractual services	136,743	314,344	60,774	916	512,777
Depreciation	326,097	2,095,219	35,627	-	2,456,943
General & administration	14,049	106,671	76,376	6,526	203,622
Safety	5,757	21,552	59	-	27,368
Directors fees	-	-	29,845	900	30,745
Memberships & subscriptions	2,063	8,302	26,295	-	36,660
Office supplies & services	3,973	70,382	11,112	-	85,467
Operating supplies	17,851	210,570	697	-	229,118
Repairs & maintenance	85,000	465,548	343	1,038	551,929
Permits & fees	4,968	22,209	13,031	-	40,208
Travel & meetings	12,524	32,214	13,317	7	58,062
Trucks & auto	56,406	23,780	725	-	80,911
Utilities	26,684	218,246	15,520	-	260,450
Other expenses	-	9,643	28,492	-	38,135
Totals, by department	<u>\$ 1,281,334</u>	<u>\$ 5,417,511</u>	<u>\$ 1,044,069</u>	<u>\$ 526,800</u>	<u>\$ 8,269,714</u>

CARMEL AREA WASTEWATER DISTRICT
Schedule III - Collection Expenses
Budget to Actual - Budgetary Basis
Year Ended June 30, 2015

	Final Budget	Actual	Variance Favorable (Unfavorable)
Salaries & payroll taxes	\$ 391,335	\$ 361,023	\$ 30,312
Employee benefits	168,570	228,196	(59,626)
Contractual services	69,850	136,743	(66,893)
Depreciation	325,000	326,097	(1,097)
General & administrative	53,580	14,049	39,531
Safety	6,000	5,757	243
Director's fees	-	-	-
Memberships & subscriptions	1,430	2,063	(633)
Office supplies & services	9,325	3,973	5,352
Operating supplies	37,150	17,851	19,299
Repairs & maintenance	66,400	85,000	(18,600)
Permits & fees	-	4,968	(4,968)
Travel & meetings	16,100	12,524	3,576
Trucks & autos	61,860	56,406	5,454
Utilities	33,200	26,684	6,516
Other expenses	4,800	-	4,800
Totals	<u>\$ 1,244,600</u>	<u>\$ 1,281,334</u>	<u>\$ (36,734)</u>

CARMEL AREA WASTEWATER DISTRICT
Schedule IV - Treatment & Disposal Expenses
Budget to Actual - Budgetary Basis
Year Ended June 30, 2015

	Final Budget	Actual	Variance Favorable (Unfavorable)
Salaries & payroll taxes	\$ 1,278,825	\$ 1,063,050	\$ 215,775
Employee benefits	483,095	755,781	(272,686)
Contractual services	361,205	314,344	46,861
Depreciation	2,200,000	2,095,219	104,781
General & administrative	205,175	106,671	98,504
Safety	26,810	21,552	5,258
Director's fees	-	-	-
Memberships & subscriptions	5,200	8,302	(3,102)
Office supplies & services	31,100	70,382	(39,282)
Operating supplies	246,500	210,570	35,930
Repairs & maintenance	452,500	465,548	(13,048)
Permits & fees	-	22,209	(22,209)
Travel & meetings	33,000	32,214	786
Trucks & autos	18,125	23,780	(5,655)
Utilities	241,865	218,246	23,619
Other expenses	39,100	9,643	29,457
Totals	<u>\$ 5,622,500</u>	<u>\$ 5,417,511</u>	<u>\$ 204,989</u>

CARMEL AREA WASTEWATER DISTRICT
Schedule V - General & Administrative Expenses
Budget to Actual - Budgetary Basis
Year Ended June 30, 2015

	Final Budget	Actual	Variance Favorable (Unfavorable)
Salaries & payroll taxes	\$ 509,524	\$ 425,105	\$ 84,419
Employee benefits	208,216	306,751	(98,535)
Contractual services	113,870	60,774	53,096
Depreciation	30,100	35,627	(5,527)
General & administrative	121,250	76,376	44,874
Safety	-	59	(59)
Director's fees	24,100	29,845	(5,745)
Memberships & subscriptions	21,320	26,295	(4,975)
Office supplies & services	24,450	11,112	13,338
Operating Supplies	1,400	697	703
Repairs & maintenance	5,000	343	4,657
Permits & fees	-	13,031	(13,031)
Travel & meetings	30,200	13,317	16,883
Trucks & autos	400	725	(325)
Utilities	17,800	15,520	2,280
Other expenses	73,620	28,492	45,128
Totals	<u>\$ 1,181,250</u>	<u>\$ 1,044,069</u>	<u>\$ 137,181</u>

CARMEL AREA WASTEWATER DISTRICT
Schedule VI - Reclamation Project
Budget to Actual - Budgetary Basis
Year Ended June 30, 2015

	Final Budget	Actual	Variance Favorable (Unfavorable)
Salaries & payroll taxes	\$ 492,945	\$ 517,413	\$ (24,468)
Contractual services	12,000	916	11,084
General & administrative	10,000	6,526	3,474
Directors fees	1,000	900	100
Repairs & maintenance	1,000	1,038	(38)
Travel & meetings	-	7	(7)
Totals	<u>\$ 516,945</u>	<u>\$ 526,800</u>	<u>\$ (9,855)</u>

CARMEL AREA WASTEWATER DISTRICT
Schedule VII - Insurance
Year Ended June 30, 2015

	<u>Coverage</u>	<u>Deductible</u>
Comprehensive AL/GL (including errors and omissions)	\$ 15,750,000	\$2,500 to \$25,000
Excess Public Entity Liability (including errors and omissions - \$5,000,000)	\$ 10,000,000	None
Special Form Property	\$ 59,981,413	\$ 10,000
Workers' Compensation/Employers' Liability	\$ 750,000	None
Excess Workers Compensation/Employers Liability	\$ 1,750,000	None
Commercial Crime Policy	\$ 1,000,000	\$ 10,000

