

Agenda
Sacramento Suburban Water District
Finance and Audit Committee

3701 Marconi Avenue, Suite 100
Sacramento, CA 95821

Wednesday, February 9, 2011
3:30 p.m.

Public documents relating to any open session item listed on this agenda that are distributed to members of the Finance and Audit Committee less than 72 hours before the meeting are available for public inspection in the customer service area of the District's Administrative Office at the address listed above.

The public may address the Committee concerning an agenda item either before or during the Board's consideration of that agenda item. Persons who wish to comment on either agenda or non-agenda items should fill out a Comment Card and give it to the General Manager. The Committee Chair will call for comments at the appropriate time. Comments will be subject to reasonable time limits (3 minutes).

In compliance with the Americans with Disabilities Act, if you have a disability, and you need a disability-related modification or accommodation to participate in this meeting, then please contact Sacramento Suburban Water District Human Resources at 679.3972. Requests must be made as early as possible, and at least one full business day before the start of the meeting.

Call to Order

Roll Call

Public Comment

This is the opportunity for the public to comment on non-agenda items within the Committee's jurisdiction. Comments are limited to 3 minutes.

Items for Discussion and Action

1. **District's Reserve Policy (PL – Fin 004)**
Discuss proposed revisions to the District's Reserve Policy.
2. **Financial Plan, Water Revenue, and Facility Development Charge Study**
Discuss completing the study's remaining scope of work.
3. **Auditing Firm Responsibilities and Tasks**
Discuss the responsibilities and tasks of the auditor and the District.

I certify that the foregoing agenda for the February 9, 2011, meeting of the Sacramento Suburban Water District Finance and Audit Committee was posted by February 4, 2011 at the Sacramento Suburban Water District office, 3701 Marconi Avenue, Suite 100, Sacramento, California, and was made available to the public during normal business hours.

Robert S. Roscoe
General Manager/Secretary
Sacramento Suburban Water District

AGENDA ITEM 1

District's Reserve Policy (PL – Fin 004)



[Return to Agenda](#)

Agenda Item: 1

Date: February 3, 2011

Subject: Review District's Reserve Policy (PL – Fin 004)

Staff Contact: Dan Bills, Finance Director

Recommended Committee Action:

Provide staff with input and direction.

Discussion:

Staff is providing the Committee with suggested changes to the District's Reserve Policy.

As nearly all of the Policy is proposed to be revised, a delineation of the changes will not be enumerated here. Please see the redline and clean versions of the proposed revisions attached.

Sacramento Suburban Water District

Field Code Changed

Reserve Policy

Adopted: August 18, 2003

Revised: September 20, 2004; August 21, 2006; August 18, 2008

100.00 Purpose of the Policy

~~This document sets forth the policy of the Sacramento Suburban Water District concerning its contingency reserve requirements. This policy rescinds all existing policies regarding District contingency reserves.~~

Key objectives of prudent financial planning are to ensure sufficient resources for current services and obligations, and to prepare for future anticipated funding requirements and unforeseen events.

To meet these objectives, the District will at all times strive to have sufficient funding available to meet its operating, capital, debt service obligations, and long range financial plans while avoiding significant rate fluctuations due to changes in cash flow requirements. In order to assure itself of available cash for District business purposes, and in order to operate the District in a prudent, safe and sound manner, the District has established believes that a certain restricted and unrestricted reserves.

Restricted reserves are funds for which uses are constrained by externally imposed obligations, such as creditors, grantors, regulations or laws. Unrestricted reserves are comprised of designated reserves established at the discretion of the Board of Directors and undesignated reserves for which no uses have been specified. portion of its cash should be held in reserve. Further, the District recognizes that it has certain contractual, legal or other requirements to reserve cash and/or District capital, including debt covenants, in order to satisfy specific claims on District assets or the District's earning ability. Therefore, the District has established a four-tier reserve requirement to meet such contingencies and claims (1) an operational reserve requirement; (2) a capital asset replacement reserve requirement; (3) a debt service reserve requirement; and (4) an interest rate risk management reserve requirement.

200.00 Policy

200.10 Operational Reserve Requirement Restricted Reserves

Debt Service Reserves:

These reserves are established by the individual bond covenants of each debt issuance.

The primary types of Debt Service Reserves are:

1. Debt Service Reserve Fund - Funds held in Trust for bond holders should the District be unable to make a required payment.
2. Arbitrage Rebate – Funds held for paying the IRS excess earnings on amounts held in Debt Service Reserve Fund.

These funds are not available for general needs of the District. Such funds are held in Trust for the bond holders until bond termination or maturity occurs, after which such funds will be remitted to the District.

Restricted Operating Reserves:

Certain Bond covenants require the provision of an Operating Reserve that is only to be used to meet operating needs of the District if there are no other funding sources available. The minimal funding level required by the bond covenants is one month of maintenance and operating costs.

Catastrophic Reserve:

To provide immediate funds in case of a catastrophic occurrence (may recover via insurance later but such funds are for needed for immediate use.) Reserve amounts are to cover increased operating costs and infrastructure repairs during special stress periods such as drought, storms, earthquakes, fires, floods or emergencies threatening or causing interruption of water service.

200.20 Unrestricted Reserves

Designated Reserves

Operating Reserves:

The District intends to have enough cash and cash equivalents on reserve to avoid short-term borrowing due to contingent disruptions that may occur in its revenue streams, such as delays in grant payments, or that may occur due to large unexpected operating or debt service expenditure requirements. Therefore, the District shall have on reserve in its operational fund short-term investments and/or cash equal to twenty-five percent (25%) of its anticipated (budgeted) annual expenditures for operating costs and debt service costs (principal, market interest expense, facility fee, remarketing fee, swap payment stream) at all times. In the case of operational reserves, it is intended that such an amount serve as a floor or minimum level that would allow the District to operate for up to three months without obtaining short-term funding. Such a reserve would be inclusive of funds held in the Restricted Operating Reserve Fund.

Formatted: Underline

Formatted: Numbered + Level: 3 +
Numbering Style: 1, 2, 3, ... + Start at: 1 +
Alignment: Left + Aligned at: 1.38" + Indent
at: 1.5"

Formatted: Underline

Formatted: Font: Not Bold, Underline

Formatted: Underline

Formatted: Font: Bold

Formatted: Font: 13 pt, Underline

Formatted: Font: 13 pt, Underline

Formatted: Underline

Rate Stabilization Reserves

Amount needed to fund unanticipated variations in costs, revenues or timing of cash flows. Reserve balance shall be 25% of 5 year average annual water costs, operating expenses and debt service.

Formatted: Font: Not Bold, Underline
Formatted: Underline
Formatted: Font: Not Bold

Facilities Reimbursement Fund:

The District will credit to said fund 20% of all Facilities Development Charges paid to the District during each fiscal year. Purpose is to repay developers for extensions and over-sized mains.

Formatted: Font: Not Bold

Encumbrance and Grant Funded Project Reserve:

The balance of said reserve shall be the outstanding encumbrances at year-end for which goods or services have not been received for projects in process plus the estimated balance of approved projects gross of expected grant or developer funding.

Formatted: Font: Not Bold, Underline
Formatted: Font: Not Bold, Underline
Formatted: Font: Not Bold, Underline
Formatted: Font: Not Bold

Debt Service Restructuring Reserve:

At times certain and uncertain the District will need to either refinance its COPs, renew its LOC with current providers, or obtain new LOC providers. In addition, the District has issued a variable-rate swap to synthetically fix its variable rate debt. When the SWAP is out of the money the District will hold in its reserves the FMV of the SWAP due to the potential need to pay-off the SWAP as variable debt may be refinanced to fixed-rate debt or the risk of holding the SWAP is prohibitive to the District's interest rate risk exposure tolerance.

Formatted: Font: Not Bold, Underline
Formatted: Underline

Reserve for Short-Term Liabilities on the Balance Sheet at year-end:

- Accounts payable
- Compensated absences
- Current portion of bonds payable

Formatted: Underline
Formatted: Font: Not Bold, Underline

~~The District intends to have enough cash and cash equivalents on reserve to avoid borrowing due to contingent disruptions that may occur in its revenue streams or that may occur due to large unexpected expenditure requirements, such as self-insured events. Therefore, the District shall have on reserve in its operational fund short term investments and cash equal to twenty five percent (25%) of its anticipated (budgeted) annual expenditures for operating costs and debt service expenditures expense stream at all times.~~

Intent of reserve account

In the case of operational reserves, it is intended that such an amount serve as a floor or minimum level below which the District will not operate except in times of severe economic distress.

200.20 Capital Asset Replacement Reserve;

The District recognizes that its ~~infrastructure~~ capital assets must eventually be replaced. ~~As the~~ The cost of replacing capital assets ~~infrastructure can be~~ is significant and because cash outlays for such assets can occur irregularly ~~infrastructure~~ replacements may not be available when needed. Further, ~~unexpected catastrophic events, such as the loss of key infrastructure assets, interruption of water supply sources, water contamination, or compliance issues with existing regulations or laws, often require immediate access to cash.~~ Therefore, the District desires that ratepayers fund a portion of these future cash outlays on a regular (pay-as-you-go) basis. Further, ~~the District also recognizes that the cost and eligibility to borrow funds when needed are driven by market conditions that may or may not be advantageous or available to the District at the time asset replacement is needed. Therefore, in order to mitigate or eliminate the need to fund the replacement of capital assets through borrowing,~~ Therefore, the District shall reserve in its capital fund balance a percentage of its annual revenues as determined by staff and approved by the Board in accordance with the estimated present value of expected future replacement costs for existing capital assets spread over the assets expected useful lives. Further, all unspent cash not required for approved capital projects, or encumbered, or unused in any accounting period attributable to capital projects shall be held in reserve in ~~attributed to~~ the capital fund balance.

Intent of reserve account

The capital asset replacement fund reserve is intended to be a reserve for ~~infrastructure replacement and unexpected catastrophic infrastructure events that is~~ financed by facility development charges, capital replacement facilities charges, and any remaining unused cash not spent on approved capital projects ~~budgeted costs not spent on budgeted items.~~

200.30 Bond Indebtedness Reserve.

The District recognizes that borrowing long-term funds for the purpose of enhancing, improving or acquiring infrastructure and facilities may at times be necessary. When the District determines that borrowing is necessary to fund such asset acquisitions, then all funds borrowed shall be accounted for in accordance with the covenants, terms and conditions as set forth in the bond indenture agreement, certificate of participation official statement or such similar documents. Additionally, all proceeds received from such issuances shall be maintained in bank or investment accounts separately from all other District reserves and accounts or as otherwise provided in the applicable indebtedness documents.

Intent of reserve account

Bond indebtedness reserves are intended to serve two purposes. The first is to separately account for bond proceeds; making sure expenditures of such proceeds are made in accordance with the borrowing terms. The second purpose is to establish a

Formatted: Font: Not Bold, Underline

Formatted: Underline

Formatted: Font: Not Bold

Formatted: Indent: Left: 0", Hanging: 1.5",
Tab stops: 0.75", Left + Not at 1"

~~reserve for the repayment of principal and interest on borrowed funds. Financing for this debt repayment fund will be from debt service charges (also known as capital facilities and infrastructure replacement charges) collected from District ratepayers.~~

200.3040

Interest Rate Risk Management Reserve Requirement

The District may at times enter into financial transactions that create interest rate risk, such as variable rate debt. To the extent the District needs to invest funds for the purpose of managing interest rate risk, it shall hold in its total reserve balance an amount sufficient to manage the assumed risk. Such reserves will comprise reserves defined above.

300.00 Policy Review

This Policy shall be reviewed at least biennially.

Sacramento Suburban Water District

Reserve Policy

Adopted: August 18, 2003

Revised: September 20, 2004; August 21, 2006; August 18, 2008

100.00 Purpose of the Policy

Key objectives of prudent financial planning are to ensure sufficient resources for current services and obligations, and to prepare for future anticipated funding requirements and unforeseen events.

To meet these objectives, the District will at all times strive to have sufficient funding available to meet its operating, capital, debt service obligations, and long range financial plans while avoiding significant rate fluctuations due to changes in cash flow requirements. In order to assure itself of available cash, the District has established certain restricted and unrestricted reserves.

Restricted reserves are funds for which uses are constrained by externally imposed obligations, such as creditors, grantors, regulations or laws. Unrestricted reserves are comprised of designated reserves established at the discretion of the Board of Directors and undesignated reserves for which no uses have been specified.

200.00 Policy**200.10 Restricted Reserves**Debt Service Reserves:

These reserves are established by the individual bond covenants of each debt issuance.

The primary types of Debt Service Reserves are:

1. Debt Service Reserve Fund - Funds held in Trust for bond holders should the District be unable to make a required payment.
2. Arbitrage Rebate – Funds held for paying the IRS excess earnings on amounts held in Debt Service Reserve Fund.

These funds are not available for general needs of the District. Such funds are held in Trust for the bond holders until bond termination or maturity occurs, after which such funds will be remitted to the District.

Restricted Operating Reserves:

Certain Bond covenants require the provision of an Operating Reserve that is only to be used to meet operating needs of the District if there are no other funding sources available. The minimal funding level required by the bond covenants is one month of maintenance and operating costs.

Catastrophic Reserve:

To provide immediate funds in case of a catastrophic occurrence (may recover via insurance later but such funds are for needed for immediate use.) Reserve amounts are to cover increased operating costs and infrastructure repairs during special stress periods such as drought, storms, earthquakes, fires, floods or emergencies threatening or causing interruption of water service.

200.20 Unrestricted Reserves

Designated Reserves

Operating Reserves:

The District intends to have enough cash and cash equivalents on reserve to avoid short-term borrowing due to contingent disruptions that may occur in its revenue streams, such as delays in grant payments, or that may occur due to large unexpected operating or debt service expenditure requirements. Therefore, the District shall have on reserve in its operational fund short-term investments and/or cash equal to twenty-five percent (25%) of its anticipated (budgeted) annual expenditures for operating costs and debt service costs (principal, market interest expense, facility fee, remarketing fee, swap payment stream) at all times. In the case of operational reserves, it is intended that such an amount serve as a floor or minimum level that would allow the District to operate for up to three months without obtaining short-term funding. Such a reserve would be inclusive of funds held in the Restricted Operating Reserve Fund.

Rate Stabilization Reserves

Amount needed to fund unanticipated variations in costs, revenues or timing of cash flows. Reserve balance shall be 25% of 5 year average annual water costs, operating expenses and debt service.

Facilities Reimbursement Fund:

The District will credit to said fund 20% of all Facilities Development Charges paid to the District during each fiscal year. Purpose is to repay developers for extensions and over-sized mains.

Encumbrance and Grant Funded Project Reserve:

The balance of said reserve shall be the outstanding encumbrances at year-end for which goods or services have not been received for projects in process plus the estimated balance of approved projects gross of expected grant or developer funding.

Debt Service Restructuring Reserve:

At times certain and uncertain the District will need to either refinance its COPs, renew its LOC with current providers, or obtain new LOC providers. In addition, the District has issued a variable-rate swap to synthetically fix its variable rate debt. When the SWAP is out of the money the District will hold in its reserves the FMV of the SWAP due to the potential need to pay-off the SWAP as variable debt may be refinanced to fixed-rate debt or the risk of holding the SWAP is prohibitive to the District's interest rate risk exposure tolerance.

Reserve for Short-Term Liabilities on the Balance Sheet at year-end:

- Accounts payable
- Compensated absences
- Current portion of bonds payable

Capital Asset Reserve:

The District recognizes that its infrastructure must eventually be replaced. The cost of replacing infrastructure is significant and cash outlays for infrastructure replacements may not be available when needed. Further, unexpected catastrophic events, such as the loss of key infrastructure assets, interruption of water supply sources, water contamination, or compliance issues with existing regulations or laws, often require immediate access to cash. Therefore, the District desires that ratepayers fund a portion of these future cash outlays on a regular (pay-as-you-go) basis. Therefore, the District shall reserve in its capital fund balance a percentage of its annual revenues as determined by staff and approved by the Board in accordance with the estimated present value of expected future replacement costs for existing capital assets spread over the assets expected useful lives. Further, all unspent cash not required for approved capital projects, or encumbered, or unused in any accounting period attributable to capital projects shall be held in reserve in the capital fund balance.

The capital asset fund reserve is intended to be a reserve for infrastructure replacement and unexpected catastrophic infrastructure events that is financed by facility development charges, capital facilities charges, and any remaining unused cash not spent on approved capital projects.

200.30 Interest Rate Risk Management Reserve Requirement

The District may at times enter into financial transactions that create interest rate risk, such as variable rate debt. To the extent the District needs to invest funds for the purpose of managing interest rate risk, it shall hold in its total reserve balance an amount sufficient to manage the assumed risk. Such reserves will comprise reserves defined above.

300.00 Policy Review

This Policy shall be reviewed at least biennially.

AGENDA ITEM 2

**Financial Plan, Water Revenue, and
Facility Development Charge Study**



[Return to Agenda](#)

Agenda Item: 2

Date: February 3, 2011

Subject: Financial Plan, Water Revenue, and Facility Development Charge (FDC) Study

Staff Contact: Dan Bills, Finance Director

Recommended Committee Action:

Provide staff with direction on the remaining scope of work.

Discussion:

As directed by the Board of Directors (Board) in the September 2009 Board meeting the District entered into an Agreement with The Reed Group, Inc. to perform a Financial Plan, Water Revenue, and Facility Development Charge (FDC) Study. The FDC study was complete in March 2010 and has been accepted by the Board.

The Reed Group next prepared a five year Financial Plan (Plan) for the District and based on the results of the Plan, four water revenue scenarios were prepared and reviewed by the Committee and the Board. The four scenarios were:

1. Current customer revenue charges remain unchanged over the Financial Plan horizon.
2. Increase customer revenue charges to fully fund the Water System Master Plan proposed Capital Improvement Projects (CIP), as well as continuing to fund Operating and Maintenance Expenses (O&M) and debt service costs over the Financial Plan horizon.
3. Increase customer revenue charges by 5% per year over the Financial Plan horizon.
4. Increase customer revenue charges by 5% in 2012 and again in 2014.

After discussion by the Board, there was no adoption of a scenario nor was further direction provided to staff.

Separate from the District water revenue selection, the Reed Group was also contracted to provide the Board with alternative rate structures for the Districts customers, most of which would be designed to encourage water conservation. To date, there has been no discussion of exploring alternate rate structures. Staff therefore seeks Committee direction on the remaining scope of work yet to be completed.

Note: In September 2010 this same issue was discussed with the Committee. The Committee recommended such matters come before the full Board.

Fiscal Impact:

Reed Group remaining contract amount of \$25,900 (Contract amount - \$48,900 less expenditures to date of \$23,000.)

AGENDA ITEM 3

Auditing Firm Responsibilities and Tasks



[Return to Agenda](#)

Agenda Item: 3

Date: February 3, 2011

Subject: Auditing Firm Responsibilities and Tasks

Staff Contact: Dan Bills, Finance Director

Statement of Auditing Standards No. 114 (SAS No. 114) - "The Auditor's Communication with Those Charged with Governance" requires the Auditors (Gilbert Associates, Inc.) to communicate periodically throughout the course of the audit with the Finance and Audit Committee (Committee) and the Board of Directors (Board).

The principal purpose of this communication as described in SAS No. 114 is to:

- a. Communicate clearly with those charged with governance the responsibilities of the auditor in relation to the financial statement audit, and provide an overview of the scope and timing of the audit.
- b. Obtain from those charged with governance information relevant to the audit.
- c. Provide those charged with governance timely observations arising from the audit that are relevant to their responsibilities in overseeing the financial reporting process.
- d. Inform the Committee and the Board of the representations the auditor is requesting from management.

Attached is a report from the Auditors outlining issues to be discussed with the Committee at this time. During the course of the audit continued reports from the Auditors will be reported to the Board and the Committee.

Also attached is the audit engagement letter with the Auditors that was approved by the Board in October 2010. The engagement letter describes the role and responsibilities of the Auditors and the District, plus a description of the additional expenditure testing requested by the District that are beyond the scope of what is required in the audit in order to reach an opinion on the District's financial statements.

**SACRAMENTO SUBURBAN WATER DISTRICT
FINANCE AND AUDIT COMMITTEE MEETING
FEBRUARY 9, 2011**

Introductions

Gilbert Associates, Inc.

Shareholder: Peggy A. Vande Vooren

peggy@gilbertcpa.com

Phone: 916-646-6464, Extension 111

Timing

- ⌚ Interim Internal Control Testing: 1/31/11 – 2/4/11
- ⌚ Year End Testing: 3/7/11 – 3/18/11
- ⌚ Finance and Audit Committee: TBD
 - ⇒ Review audit results
 - ⇒ Review draft audit report
- ⌚ Issue Final Report: TBD
- ⌚ Board Meeting: TBD
 - ⇒ Review final audit report

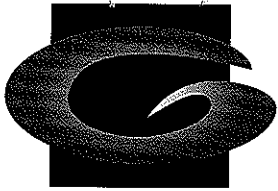
Interim Internal Control Tests

- ✓ Inventory Observation – 1/10/11 – Sample of 25 – No exceptions
- ✓ General Cash Disbursements – Sample of 40
- ✓ ACH / Wire Transfers – Sample of 10
- ✓ Petty Cash Disbursements – Sample of 10
- ✓ Purchasing Card Disbursements – Sample of 10
- ✓ Board Member / Employee Reimbursements – Sample of 10
- ✓ Payroll Disbursements – Sample of 25
 - Includes verification of pay rates for four pay period for senior management, finance staff, anyone involving in the payroll processing function, and sample of 19 other employees.
- ✓ Cash Receipts – Sample of 40
- ✓ Bank reconciliations – Includes all checking and investment accounts

Single Audit

- ✓ Challenge Grant

Questions?



Gilbert Associates, Inc.
CPAs and Advisors

September 15, 2010

Mr. Daniel A. Bills
Director of Finance
Sacramento Suburban Water District
3701 Marconi Avenue, Suite 100
Sacramento, California 95821

Dear Mr. Bills:

We are pleased to confirm our understanding of the services we are to provide Sacramento Suburban Water District (the District) for the year ended December 31, 2010. We will audit the basic financial statements of the District as of and for the year ended December 31, 2010. Accounting standards generally accepted in the United States provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A), to accompany the District's basic financial statements. As part of our engagement, we will apply certain limited procedures to the District's RSI. These limited procedures will consist principally of inquiries of management regarding the methods of measurement and presentation, which management is responsible for affirming to us in its representation letter. Unless we encounter problems with the presentation of the RSI or with procedures relating to it, we will disclaim an opinion on it. The following RSI is required by generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited:

- Management's Discussion and Analysis
- Schedule of Funding Progress (OPEB)

Supplementary information other than RSI also accompanies the District's basic financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and will provide an opinion on it in relation to the financial statements as a whole:

- Schedule of Net Revenues

Additionally, as part of these services, we will expand the scope of our expense testing to include additional sample sizes requested by the District. Sample sizes under Generally Accepted Auditing Standards (GAAS) vary based on auditor judgment and evaluation. These expanded procedures are intended to go beyond the sample sizes determined by Gilbert Associates, Inc. under GAAS. This expense testing will include general cash disbursements, payroll disbursements, wire and ACH transfers, petty cash, and Purchasing Card payments. Additionally, this testing will include verifying payments to District employees and Board members on a sample basis. Furthermore, it will include verifying the pay rates for at least one period of senior management, finance staff, anyone involved in the payroll processing function and a sample of 10 other employees. For expenses, the additional sample size will be between 50 to 75 expenditures.

Mr. Daniel Bills
Director of Finance
Sacramento Suburban Water District
September 15, 2010
Page 2

Furthermore, upon completion of these services, Gilbert Associates, Inc. will present the financial statements and the results of the audit to the District's Finance and Audit Committee.

Audit Objectives

The objective of our audit is the expression of opinions as to whether your basic financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles and to report on the fairness of the supplementary information referred to in the second paragraph when considered in relation to the financial statements as a whole. The objective also includes reporting on:

- Internal control related to the financial statements and compliance with laws, regulations, and the provisions of contracts or grant agreements, noncompliance with which could have a material effect on the financial statements in accordance with *Government Auditing Standards*.
- Internal control related to major programs and an opinion (or disclaimer of opinion) on compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The report on internal control and compliance will include a statement that the report is intended solely for the information and use of management, the body or individuals charged with governance, others within the organization, specific legislative or regulatory bodies, federal awarding agencies, and if applicable, pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America; the standards for financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; and the provisions of OMB Circular A-133, and will include tests of the accounting records of the program and other procedures we consider necessary to enable us to express an opinion and to render the required reports. If our opinions on the financial statements or the Single Audit compliance opinions are other than unqualified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or to issue a report as a result of this engagement.

Management Responsibilities

Management is responsible for the basic financial statements and all accompanying information as well as all representations contained therein. Management is also responsible for identifying government award programs and understanding and complying with the compliance requirements, and for preparation of the schedule of expenditures of federal awards in accordance with the requirements of OMB Circular A-133. As part of the audit, we will assist with preparation of your financial statements, schedule of expenditures of federal awards, and related notes. You are responsible for making all management decisions and performing all management functions relating to the financial statements, schedule of expenditures of federal awards, and related notes and for accepting full responsibility for such decisions. You will be required to acknowledge in the management representation letter our assistance with preparation of the financial statements and the schedule of expenditures of federal awards and that you have reviewed and approved the financial statements, schedule of expenditures of federal awards, and related notes prior to

Mr. Daniel Bills
Director of Finance
Sacramento Suburban Water District
September 15, 2010
Page 3

their issuance and have accepted responsibility for them. Further, you are required to designate an individual with suitable skill, knowledge, or experience to oversee any nonaudit services we provide and for evaluating the adequacy and results of those services and accepting responsibility for them.

Management is responsible for establishing and maintaining effective internal controls, including internal controls over compliance, and for evaluating and monitoring ongoing activities, to help ensure that appropriate goals and objectives are met and that there is reasonable assurance that government programs are administered in compliance with compliance requirements. You are also responsible for the selection and application of accounting principles; for the fair presentation in the financial statements of the District and the respective changes in financial position and cash flows in conformity with U.S. generally accepted accounting principles; and for compliance with applicable laws and regulations and the provisions of contracts and grant agreements.

Management is responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. Your responsibilities also include identifying significant vendor relationships in which the vendor has responsibility for program compliance and for the accuracy and completeness of that information. Your responsibilities include adjusting the financial statements to correct material misstatements and for confirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud or illegal acts affecting the government involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud or illegal acts could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the government received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the entity complies with applicable laws, regulations, contracts, agreements, and grants. Additionally, as required by OMB Circular A-133, it is management's responsibility to follow up and take corrective action on reported audit findings and to prepare a summary schedule of prior audit findings and a corrective action plan. You are responsible for the preparation of the supplementary information in conformity with U.S. generally accepted accounting principles. You agree to include our report on the supplementary information in any document that contains and indicates that we have reported on the supplementary information. You also agree to present the supplementary information with the audited financial statements.

With regard to using the auditor's report, you understand that you must obtain our prior written consent to reproduce or use our report in bond offering official statements or other documents. With regard to the electronic dissemination of audited financial statements, including financial statements published electronically on your website, you understand that electronic sites are a means to distribute information and, therefore, we are not required to read the information contained in these sites or to consider the consistency of other information in the electronic site with the original document.

Mr. Daniel Bills
Director of Finance
Sacramento Suburban Water District
September 15, 2010
Page 4

Management is responsible for establishment and maintenance of a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying for us previous financial audits, attestation engagements, performance audits, or other studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits, or attestation engagements, performance audits, or other studies. You are also responsible for providing management's views on any current findings, conclusions, and recommendations, as well as your planned corrective actions, for the report, and for the timing and format for providing that information.

Audit Procedures—General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because an audit is designed to provide reasonable, but not absolute assurance and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. However, we will inform you of any material errors and any fraudulent financial reporting or misappropriation of assets that come to our attention. We will include such matters in the reports required for a Single Audit. Our responsibility as auditors is limited to the period covered by our audit and does not extend to later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will also require certain written representations from you about the financial statements and related matters.

Audit Procedures—Internal Controls

Our audit will include obtaining an understanding of the entity and its environment, including internal controls, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal controls and, accordingly, no opinion will be expressed in our report on internal controls issued pursuant to *Government Auditing Standards*.

Mr. Daniel Bills
Director of Finance
Sacramento Suburban Water District
September 15, 2010
Page 5

As required by OMB Circular A-133, we will perform tests of controls over compliance to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each major federal award program. However, our tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to OMB Circular A-133.

An audit is not designed to provide assurance on internal controls or to identify significant deficiencies. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards, *Government Auditing Standards*, and OMB Circular A-133.

Audit Procedures—Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the District's compliance with the provisions of applicable laws, regulations, contracts, agreements, and grants. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

OMB Circular A-133 requires that we also plan and perform the audit to obtain reasonable assurance about whether the auditee has complied with applicable laws and regulations and the provisions of contracts and grant agreements applicable to major programs. Our procedures will consist of tests of transactions and other applicable procedures described in the *OMB Circular A-133 Compliance Supplement* and related addenda for the types of compliance requirements that could have a direct and material effect on each of District's major programs. The purpose of these procedures will be to express an opinion on the District's compliance with requirements applicable to each of its major programs in our report on compliance issued pursuant to OMB Circular A-133.

Audit Administration, Fees, and Other

We understand that your employees will prepare all cash or other confirmations we request and will locate any invoices selected by us for testing.

At the conclusion of the engagement, we will complete the appropriate sections of the Data Collection Form that summarizes our audit findings. It is management's responsibility to submit the reporting package (including financial statements, schedule of expenditures of federal awards, summary schedule of prior audit findings, auditors' reports, and corrective action plan) along with the Data Collection Form to the federal audit clearinghouse. We will coordinate with you the electronic submission and certification. If applicable, we will provide copies of our report for you to include with the reporting package you will submit to pass-through entities. The Data Collection Form and the reporting package must be submitted within the earlier of 30 days after receipt of the auditors' reports or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.

The audit documentation for this engagement is the property of Gilbert Associates, Inc. and constitutes confidential information. However, pursuant to authority given by law or regulation, we may be requested to make certain audit documentation available to the Bureau of Reclamation or its designee, a federal agency providing direct or indirect funding, or the U.S. Government Accountability Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. We

Mr. Daniel Bills
Director of Finance
Sacramento Suburban Water District
September 15, 2010
Page 6

will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of Gilbert Associates, Inc. personnel. Furthermore, upon request, we may provide copies of selected audit documentation to the aforementioned parties. These parties may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.

The audit documentation for this engagement will be retained for a minimum of seven years after the report release date or for any additional period requested by the Bureau of Reclamation. If we are aware that a federal awarding agency or auditee is contesting an audit finding, we will contact the party(ies) contesting the audit finding for guidance prior to destroying the audit documentation.

Our fee for these services will be at our standard hourly rates plus out-of-pocket costs (such as report reproduction, word processing, postage, travel, copies, telephone, etc.) except that we agree that our gross fee, including expenses, will not exceed \$41,000 (\$36,000 basic financial statements and \$5,000 single audit). Our detailed invoices for these fees will be rendered each month as work progresses and are payable on presentation. If we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our report. You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket costs through the date of termination. In the event that either party claims a breach of contract of any term of this engagement, the claim shall, at our option, be submitted to binding arbitration at 2880 Gateway Oaks Drive, Suite 100, Sacramento, California 95833.

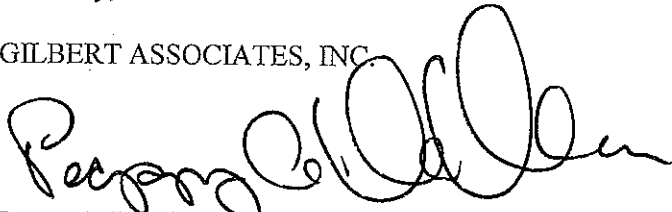
The above fee is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs.

Government Auditing Standards require that we provide you with a copy of our most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract. Our 2008 peer review report accompanies this letter.

We appreciate the opportunity to be of service to the Sacramento Suburban Water District and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Sincerely,

GILBERT ASSOCIATES, INC.



Peggy A. Vande Vooren, CPA
Shareholder

Mr. Daniel Bills
Director of Finance
Sacramento Suburban Water District
September 15, 2010
Page 7

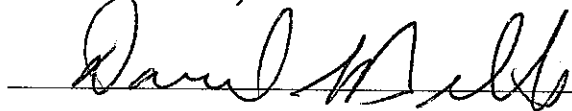
RESPONSE:

This letter correctly sets forth the understanding of Sacramento Suburban Water District.

BY: 

TITLE: Finance and Audit Committee Chairman

DATE: Oct. 18, 2010

BY: 

TITLE: Director of Finance

DATE: 10-18-2010

MANN . WBITZ & ASSOCIATES L.L.C.

Certified Public Accountants and Consultants
108 Wilmot Road Deerfield, IL 60015
PHONE 847.267.3400 FAX 847.267.3401
Email: info@mannweitz.com

April 24, 2008

To the Shareholders
Gilbert Associates, Inc.

We have reviewed the system of quality control for the accounting and auditing practice of Gilbert Associates, Inc. (the firm) in effect for the year ended November 30, 2007. A system of quality control encompasses the firm's organizational structure, the policies adopted and procedures established to provide it with reasonable assurance of conforming with professional standards. The elements of quality control are described in the Statements on Quality Control Standards issued by the American Institute of CPAs (AICPA). The firm is responsible for designing a system of quality control and complying with it to provide the firm reasonable assurance of conforming with professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance with its system of quality control based on our review.

Our review was conducted in accordance with standards established by the Peer Review Board of the AICPA. During our review, we read required representations from the firm, interviewed firm personnel and obtained an understanding of the nature of the firm's accounting and auditing practice, and the design of the firm's system of quality control sufficient to assess the risks implicit in its practice. Based on our assessments, we selected engagements and administrative files to test for conformity with professional standards and compliance with the firm's system of quality control. The engagements selected represented a reasonable cross-section of the firm's accounting and auditing practice with emphasis on higher-risk engagements. The engagements selected included among others, an audit of Employee Benefit Plans and an engagement performed under *Government Auditing Standards*. Prior to concluding the review, we reassessed the adequacy of the scope of the peer review procedures and met with firm management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

In performing our review, we obtained an understanding of the system of quality control for the firm's accounting and auditing practice. In addition, we tested compliance with the firm's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the firm's policies and procedures on selected engagements. Our review was based on selected tests; therefore it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it. There are inherent limitations in the effectiveness of any system of quality control and therefore noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the system of quality control for the accounting and auditing practice of Gilbert Associates, Inc. in effect for the year ended November 30, 2007, has been designed to meet the requirements of the quality control standards for an accounting and auditing practice established by the AICPA and was complied with during the year then ended to provide the firm with reasonable assurance of conforming with professional standards.

Mann. Weitz & Associates L.L.C.