

**PICO WATER DISTRICT FINANCIAL STATEMENTS
WITH REPORT ON AUDIT BY INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS
DECEMBER 31, 2015**

Approved by the Pico Water District Board of Directors on
May 31, 2016

**PICO WATER DISTRICT
TABLE OF CONTENTS
December 31, 2015**

Page

FINANCIAL SECTION

Independent Auditor’s Report	1-3
Management’s Discussion and Analysis	4-10
Basic Financial Statements:	
Statement of Net Position	11
Statement of Revenues, Expenses, and Changes in Net Position	12
Statement of Cash Flows.....	13
Notes to Financial Statements	14-32

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress – Other Post-employment Benefit Obligations	33
Schedule of District’s Proportionate Share of the Net Pension Liability	
California Public Employees’ Retirement System	34
Schedule of District’s Contributions – California Public Employees’	
Retirement System.....	35
Notes to Required Supplementary Information.....	36

SUPPLEMENTARY INFORMATION

Schedule of Operating Revenues.....	37
Schedule of Operating Expenses	38-39

REPORT ON COMPLIANCE AND INTERNAL CONTROLS

Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	40-41
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Pico Water District
Pico Rivera, California

Report on the Financial Statements

We have audited the accompanying financial statements of Pico Water District (the District) as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the *State Controller's Minimum Audit Requirements for California Special Districts*, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Board of Directors Pico Water District
Pico Rivera, California

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2015 and the changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 7 to the basic financial statements, in 2015, Pico Water District adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment to GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

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 4 through 10, and the required supplementary information on pages 33 through 36, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the 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.

Board of Directors Pico Water District
Pico Rivera, California

Other Information

Our audit was conducted for the purpose of forming an opinion on the District's basic financial statements. The supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 2016 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Vicenti, Lloyd & Stutzman LLP

VICENTI, LLOYD & STUTZMAN LLP
Glendora, California
May 17, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

PICO WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2015

This section of the District's annual financial report presents our analysis of the District's financial performance during the fiscal year that ended on December 31, 2015. Please read it in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's net position decreased by \$77,829, which was due to two significant issues that impacted the District for the first time ever. The first was a state imposed conservation mandate that required the District to cut back its water sales by 24% or risk being fined \$10,000 per day by the State Water Resources Control Board. This conservation mandate caused the District to lose a projected \$235,101 in water sales. The second significant issue that impacted the District's 2015 audit is the recognition of Governmental Accounting Standards Board (GASB) Statement No. 68 (Accounting and Financial Reporting for Pensions) and Statement No. 71 (Pension Transition for Contributions Made Subsequent to the Measurement Date). The combined effect that these two significant issues had on the District's net position for 2015 was to lower its net position by \$77,829.
- The District's total revenues were projected to be \$3,756,150, however due to the state imposed conservation mandate to reduce water consumption by 24% the District's total operating revenues came in at \$3,521,049 a decrease of \$235,101. Total expenses were also reduced due to the state imposed conservation mandate by \$218,132.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts: Management's Discussion and Analysis and the Financial Statements. The Financial Statements also include notes that explain in more detail some of the information in the financial statements.

REQUIRED FINANCIAL STATEMENTS

The Financial Statements of the District report information about the District using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities. The Statement of Net Position includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, profitability, and credit worthiness.

PICO WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2015

REQUIRED FINANCIAL STATEMENTS (CONTINUED)

The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

FINANCIAL ANALYSIS OF THE DISTRICT

Our analysis of the District begins on page 11 of the Financial Statements. One of the most important questions asked about the District's finances is "Is the District as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position, and the Statement of Revenues, Expenses and Changes in Net Position report information about the District's activities in a way that will help answer this question. These two statements report the net position of the District and changes in them. You can think of the District's net position - the difference between assets and liabilities - as one way to measure financial health or financial position. Over time, increases or decreases in the District's net position is one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other nonfinancial factors such as changes in economic conditions, population growth, zoning, and new or changed government legislation.

PICO WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015

NET POSITION

To begin our analysis, a summary of the District's Statements of Net Position are presented in Table 1.

TABLE 1

	<u>Year 2015</u>	<u>Year 2014 *</u>	<u>Dollar Change</u>	<u>Total Percent Change</u>
Assets:				
Current and other assets	\$ 4,769,448	\$ 4,242,059	\$ 527,389	12%
Capital Assets	<u>8,275,776</u>	<u>8,687,139</u>	<u>(411,363)</u>	-5%
Total Assets	<u>13,045,224</u>	<u>12,929,198</u>	<u>116,026</u>	1%
Deferred Outflows of Resources:				
Deferred amount pension obligation	<u>113,252</u>	<u>-</u>	<u>113,252</u>	100%
Total Deferred Outflows	<u>113,252</u>	<u>-</u>	<u>113,252</u>	100%
Liabilities:				
Current liabilities	821,490	829,189	(7,699)	-1%
Non-current liabilities	<u>787,500</u>	<u>736,863</u>	<u>50,637</u>	7%
Total Liabilities	<u>1,608,990</u>	<u>1,566,052</u>	<u>42,938</u>	3%
Deferred Inflows of Resources:				
Deferred amount pension obligation	<u>264,169</u>	<u>-</u>	<u>264,169</u>	100%
Total Deferred Inflows	<u>264,169</u>	<u>-</u>	<u>264,169</u>	100%
Net Position:				
Net investment in capital assets	8,275,776	8,687,139	(411,363)	-5%
Unrestricted	<u>3,009,541</u>	<u>2,676,007</u>	<u>333,534</u>	12%
Total Net Position	<u>\$ 11,285,317</u>	<u>\$ 11,363,146</u>	<u>\$ (77,829)</u>	-1%

* Prior year has not been restated for the implementation of GASB Statements No. 68 and No. 71.

PICO WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015

NET POSITION (CONTINUED)

As can be seen from Table 1, net position decreased by \$77,829 from fiscal year 2014 to 2015. The net position decrease of \$77,829 consists of a decrease of \$411,365 in investment in capital assets and an increase of \$333,534 in unrestricted net position; as well as the inclusion of Deferred Outflows of Resources (Asset) of \$113,252 and Deferred Inflows of Resources (Liability) of \$264,169 due to compliance with GASB No. 68 and No. 71, further explained in Note 5.

TABLE 2
Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>Year 2015</u>	<u>Year 2014*</u>	<u>Dollar Change</u>	<u>Total Percent Change</u>
Revenues				
Operating revenues	\$ 3,521,049	\$ 3,500,166	\$ 20,883	1%
Non-operating revenues	28,385	28,386	(1)	0%
Total Revenues	<u>3,549,434</u>	<u>3,528,552</u>	<u>20,882</u>	1%
Expenses				
Depreciation expense	521,571	486,519	35,052	7%
Other operating expenses	2,932,509	3,021,596	(89,087)	-3%
Nonoperating expenses	75	1,976	(1,901)	-96%
Total Expenses	<u>3,454,155</u>	<u>3,510,091</u>	<u>(55,936)</u>	-2%
Net position before capital contributions	95,279	18,461	76,818	416%
Capital contributions	<u>123,882</u>	<u>133,339</u>	<u>(9,457)</u>	-7%
Change in net position	<u>219,161</u>	<u>151,800</u>	<u>67,361</u>	44%
Net position, beginning of year	11,363,146	11,211,346	151,800	1%
Cumulative effect of change in accounting principle	<u>(296,990)</u>	-	<u>(296,990)</u>	100%
Net position, end of fiscal year, as restated	<u>\$ 11,285,317</u>	<u>\$ 11,363,146</u>	<u>\$(77,829)</u>	-1%

* Prior year has not been restated for the implementation of GASB Statements No. 68 and No. 71.

A closer examination of the source of changes in net position reveals that the District's total revenues increased by \$20,882 in 2015. The primary reason for the less than projected revenues is due to the state mandated cutbacks explained in Financial Highlights on page 4. The rate increase effective for the first billing after 12/14/14, assisted in offsetting the operating expenses (exclusive of depreciation) which were decreased by \$89,087, yielding an increase in change in net position of \$67,361. However, due to the adjustment for the cumulative effect of change in accounting principle of \$296,990, to comply with GASB Statements No. 68 and No. 71, the net position at year end including the restatement indicates a net decrease from the previous year in the amount of \$77,829.

PICO WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015

BUDGETARY HIGHLIGHTS

TABLE 3
2015 Actual vs. 2015 Budget

	Year 2015 Actual	Year 2015 Budget	Variance
Revenues			
Operating revenues	\$ 3,521,049	\$ 3,756,150	\$ (235,101)
Non-operating revenues	28,385	23,500	4,885
Total Revenues	<u>3,549,434</u>	<u>3,779,650</u>	<u>(230,216)</u>
Expenses			
Operating expenses:			
Source of supply	851,045	945,800	(94,755)
Pumping	432,687	478,137	(45,450)
Water treatment	64,687	74,500	(9,813)
Transmission and distribution	206,982	207,300	(318)
Customer service	224,178	187,900	36,278
Depreciation	521,571	525,000	(3,429)
General and administrative	1,152,930	1,248,550	(95,620)
Nonoperating expenses	75	5,100	(5,025)
Total Expenses	<u>3,454,155</u>	<u>3,672,287</u>	<u>(218,132)</u>
Net position before capital contributions	95,279	107,363	(12,084)
Capital Contributions	123,882	-	123,882
Change in net position	<u>\$ 219,161</u>	<u>\$ 107,363</u>	<u>\$ 111,798</u>

As Table 3 shows, actual change in net position is \$111,798 higher than the budgeted change in net position. The difference is primarily due to capital contributions which were not anticipated and not included in the budget. Also, lower revenues, specifically due to state mandated usage restrictions were not anticipated, generating less revenue than originally budgeted.

PICO WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015

CAPITAL ASSETS AND DEBT ADMINISTRATION CAPITAL ASSETS

At December 31, 2015, the District's investments in a broad range of infrastructure as shown in Table 4 totaled \$8,275,776.

TABLE 4
Capital Assets

	Balance at January 1, 2015	Additions	Deletions and Transfers	Balance at December 31, 2015
Capital assets:				
Non-depreciable assets	\$ 929,620	\$ -	\$ (648,226)	\$ 281,394
Depreciable assets	16,658,230	758,434	(36,747)	17,379,917
Accumulated depreciation and amortization	<u>(8,900,711)</u>	<u>(521,571)</u>	<u>36,747</u>	<u>(9,385,535)</u>
Total capital assets, net	<u>\$ 8,687,139</u>	<u>\$ 236,863</u>	<u>\$ (648,226)</u>	<u>\$ 8,275,776</u>

The major capital asset additions for the year 2015 comprised of; the purchase of one 2015 Chevrolet Colorado Truck, installation of 10 new one-inch service laterals, installation and replacement of six fire hydrants, destruction of one well and the upgrade of the building housing the well, the purchase of seven office computers including two servers, the installation of new twelve-inch and eight-inch ductile iron pipe in San Gabriel Parkway and the connection of the District's twelve-inch main to the City of Pico Rivera's ten-inch main in San Gabriel Parkway (District emergency connection).

Additional information regarding capital assets can be found in Note 3 to the financial statements.

DEBT ADMINISTRATION

At year-end, the District had no debt outstanding.

PICO WATER DISTRICT

**MANAGEMENT’S DISCUSSION AND ANALYSIS
December 31, 2015**

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET AND RATES

The District’s Board of Directors and management considered many factors when setting the 2016 budget; user fees, potential water sales, water usage patterns, increases by regulatory agencies and utilities, and staffing requirements. Perhaps the most significant issue discussed was where water sales would fall due the state imposed water conservation mandate to reduce the use of water by 24%. The 2016 Budget reflects a budget that assumes water usage will continue to be limited and that the state will continue to require the District to ask our customers to conserve water. The 2016 Budget will see water rates increased by 5%, with additional increases taking place each year for the next three years.

**TABLE 5
Fiscal Year 2015 Actual vs. Fiscal Year 2016 Budget**

	<u>Actual Year 2015</u>	<u>Budget Year 2016</u>	<u>Dollar Change</u>	<u>Total Percent Change</u>
Revenues				
Operating revenues	\$ 3,521,049	\$ 3,511,333	\$ 9,716	0.3%
Non-operating revenues	28,385	32,500	(4,115)	-12.7%
Total Revenues	<u>3,549,434</u>	<u>3,543,833</u>	<u>5,601</u>	0.2%
Expenses				
Depreciation expense	521,571	525,000	(3,429)	-0.7%
Other operating expenses	2,932,509	2,949,218	(16,709)	-0.6%
Nonoperating expenses	75	5,100	(5,025)	-98.5%
Total Expenses	<u>3,454,155</u>	<u>3,479,318</u>	<u>(25,163)</u>	-0.7%
Net position before capital contributions	95,279	64,515	30,764	47.7%
Capital contributions	<u>123,882</u>	<u>-</u>	<u>123,882</u>	100.0%
Change in net position	<u>219,161</u>	<u>64,515</u>	<u>154,646</u>	239.7%
Net position, beginning of year	11,363,146	11,363,151	(5)	0.0%
Cumulative effect of change in accounting principle	(296,990)	-	(296,990)	100.0%
Net position, end of fiscal year	<u>\$ 11,285,317</u>	<u>\$ 11,427,666</u>	<u>\$ (142,349)</u>	-1.2%

CONTACTING THE DISTRICT’S FINANCIAL MANAGER

This financial report is designed to provide our citizens, customers and creditors with a general overview of the District’s finances and to demonstrate the District’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Office Manager, Carol Sepulveda or the General Manager, Mr. Mark Grajeda at Pico Water District.

BASIC FINANCIAL STATEMENTS

PICO WATER DISTRICT
STATEMENT OF NET POSITION
December 31, 2015

Assets

Current Assets

Cash and cash equivalents	\$ 3,514,589
Accounts receivable, billed net	253,928
Accounts receivable, unbilled	202,312
Accrued interest receivable	2,732
Other receivables	47,568
Inventory of material and supplies	172,009
Prepaid expenses	<u>80,940</u>
Total Current Assets	<u>4,274,078</u>

Noncurrent assets

Investments	495,370
Capital assets, net	<u>8,275,776</u>
Total Assets	<u>13,045,224</u>

Deferred outflows of resources

Deferred amount pension obligation	<u>113,252</u>
Total Deferred Outflows	<u>113,252</u>

Liabilities

Current liabilities

Accounts payable	343,973
Accrued expenses	28,009
Compensated absences payable - current	17,096
Refundable deposits	<u>432,412</u>
Total Current Liabilities	<u>821,490</u>

Noncurrent liabilities

Compensated absences payable	103,524
Net Pension Liability	64,847
OPEB obligation	<u>619,129</u>
Total Noncurrent Liabilities	<u>787,500</u>
Total Liabilities	<u>1,608,990</u>

Deferred inflows of resources

Deferred amount pension obligation	<u>264,169</u>
Total Deferred Inflows	<u>264,169</u>

Net position

Net investment in capital assets	8,275,776
Unrestricted net position	<u>3,009,541</u>
Total Net Position	<u>\$ 11,285,317</u>

See independent auditor's report and notes to basic financial statements.

PICO WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
For the Year Ended December 31, 2015

Operating revenues	
Water sales	\$ 2,869,257
Water services	618,749
Other income	33,043
Total operating revenues	3,521,049
 Operating expenses	
Source of supply	851,045
Pumping	432,687
Water treatment	64,687
Transmission and distribution	206,982
Customer service	224,178
Depreciation	521,571
General and administrative	1,152,930
Total operating expenses	3,454,080
Operating income	66,969
 Non-operating revenues(expenses)	
Investment income	9,785
Rental income	18,600
Rental house repairs and maintenance	(75)
Total non-operating income, net	28,310
Income before capital contributions	95,279
Capital contributions	123,882
Change in net position	219,161
Net Position, Beginning of Fiscal Year	11,363,146
Cumulative effect of change in accounting principle (Note 7)	(296,990)
Net Position, Beginning of Fiscal Year as Restated	11,066,156
Net Position, End of Fiscal Year	\$ 11,285,317

See independent auditor's report and notes to basic financial statements.

PICO WATER DISTRICT
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2015

Cash flows from operating activities:	
Cash receipts from water sales and services	\$ 3,506,932
Cash receipts (payments) from other services	33,043
Payments for salaries and services	(2,939,641)
Payments for materials and services	<u>(122,566)</u>
Net cash provided by operating activities	<u>477,768</u>
Cash flows from non-capital financing activities:	
Proceeds from rental	18,600
Other non-operating revenue /(expense)	<u>(75)</u>
Net cash provided by non-capital financing activities	<u>18,525</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(110,208)
Capital contributions	<u>123,882</u>
Net cash provided by capital and financing activities	<u>13,674</u>
Cash flows from investing activities:	
(Purchases)/sales of investments	(495,365)
Investment earnings received	<u>9,033</u>
Net cash used by investing activities	<u>(486,332)</u>
Net increase in cash and cash equivalents	23,635
Cash and cash equivalents, beginning of year	<u>3,490,954</u>
Cash and cash equivalents, end of year	<u>\$ 3,514,589</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	<u>\$ 66,969</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	521,571
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable - water sales and services	2,569
Other receivables	(21,497)
Materials and supplies inventory	44,553
Prepaid expenses	(33,262)
Increase (decrease) in liabilities:	
Accounts payable	(60,693)
Accrued expenses	7,267
Compensated absences	9,560
Refundable deposits	37,408
OPEB obligation	(15,451)
Net pension liability	<u>(81,226)</u>
Total Adjustments	<u>410,799</u>
Net cash provided by operating activities	<u>\$ 477,768</u>

See independent auditor's report and notes to basic financial statements.

PICO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

The Pico Water District (the District) was formed June 22, 1926 pursuant to the provisions of the State of California. The District currently encompasses 1,536 acres and operates six wells, four of which are in use and two of which are inactive, and a 1.25 million gallon reservoir. The purpose of the District is to finance, construct, operate and maintain a water system to serve properties within the District's boundaries.

Basis of Presentation

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

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus applied. The accompanying financial statements are reported using the economic resources measurement focus, and the accrual basis of accounting. Under the economic measurement focus all assets and liabilities (whether current or noncurrent) associated with these activities are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

PICO WATER DISTRICT

**NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

New Accounting Pronouncements

GASB Statement No. 72 – Fair Value Measurement and Application

This statement was issued in February 2015 and provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements by establishing a hierarchy of inputs to valuation techniques used to measure fair value. The statement is effective for the fiscal year 2016.

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

This statement was issued in June 2015 and extends the approach to accounting and financial reporting established in Statement No. 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement No. 68 should not be considered pension plan assets. The statement is effective for fiscal year 2016 except those provisions that address employers and governmental non-employer contributing entities for pensions that are not within the scope of statement No. 68, which are effective for fiscal year 2017.

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

This statement was issued in June 2015 and establishes standards of financial reporting for defined benefit OPEB plans and defined contribution OPEB plans. This statement is closely related in some areas to GASB Statement No. 75. The statement is effective for fiscal year 2017.

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

This statement was issued in June 2015. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement establishes new accounting and financial reporting requirements for OPEB plans. This Statement is effective for fiscal year 2018.

PICO WATER DISTRICT

**NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

New Accounting Pronouncements (continued)

GASB Statement No. 79 – Certain External Investment Pools and Pool Participants

This statement was issued in December 2015 and establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all of their investments at amortized cost. This Statement also establishes accounting and financial reporting standards for state and local governments that participate in a qualifying external investment pool that measures for financial reporting purposes all of its investments at amortized cost. This statement is effective for fiscal year 2016.

GASB Statement No. 82 – Pension issues—an Amendment of GASB Statements No. 67, No. 68, and No. 73

This statement was issued in March 2016. This Statement addresses issues regarding the presentation of payroll-related measures in required supplementary information, the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee contribution requirements. This statement is effective for fiscal year 2017.

Net Position

Net position of the District can be classified into three components - net investment in capital assets, restricted and unrestricted. These classifications are defined as follows:

Net investment in capital assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation, and the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. As of December 31, 2015, the District did not have restricted net position.

Unrestricted net position - This component of net position consists of net position that does not meet the definition of “net investment in capital assets” or “restricted”.

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

PICO WATER DISTRICT

**NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents have been defined as cash and short-term investments which have a maturity of three months. At December 31, 2015, the District invested with the State Treasurer's Local Agency Investment Fund (LAIF). This is a pooled money investment account and is considered to be a cash equivalent. The District also maintains certain cash balances held with a broker. See Note 2 for reconciliation of cash and cash equivalents reported on the statement of net position.

Accounts Receivable

The District grants unsecured credit to its customers. Bad debts are accounted for by the reserve method, which establishes an allowance for doubtful accounts based upon historical losses and a review of past due accounts as of December 31, 2015. The reserve at year end was \$16,457.

Inventories

Inventories maintained by the District consist primarily of pipes, construction materials and maintenance supplies. Inventories are priced at the lower of cost or market, determined on a first-in, first-out basis.

Capital Assets and Depreciation

Capital assets are stated at historical cost, net of accumulated depreciation. The District has set the capitalization threshold for reporting capital assets at \$5,000 and a useful life that is more than one year. Depreciation is recorded on the straight-line basis over the estimated useful lives.

The ranges of lives used for computing depreciation for each capital asset class are as follows:

Wells and reservoirs	20 - 50 years
Wells and reservoirs equipment	5 - 10 years
Pumps and tanks	20 - 25 years
Water treatment equipment	5 - 10 years
Transmission and distribution	15 - 50 years
General plant	5 - 25 years

Maintenance and repairs are charged as expenses as incurred. Significant renewals and betterments are capitalized.

PICO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

Compensated Absences

Vested or accumulated vacation and sick leave is recorded as an expense and liability as benefits accrue to employees, in accordance with District policy.

Operating Revenues and Expenses

Operating revenues, such as water sales and services, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as investment income and rental income, result from nonexchange transactions or ancillary activities in which the District gives (receives) value without directly receiving (giving) equal value in exchange. Operating expenses include the cost of sales and services, administrative expenses and depreciation on capital assets.

Revenue Recognition

Revenue is recognized and accounts receivable recorded as water services are provided. This includes estimated charges for water services delivered prior to year end and billed during a subsequent billing cycle.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until that time.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time.

Capital Contributions

Capital contributions represent cash or utility plant additions contributed to the District by property owners or developers desiring services that require capital expenditures or capacity commitments.

PICO WATER DISTRICT

**NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain 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 revenues and expenditures during the reporting period. Accordingly, actual results could differ from those estimates.

NOTE 2 - CASH AND INVESTMENTS:

Cash and Investments

Cash and investments as December 31, 2015 consisted of the following:

Cash on hand	\$	700
Deposits held with financial institutions		559,293
Held by broker		3,306
Investments in Local Agency Investment Fund		<u>2,951,290</u>
Total cash and cash equivalents		3,514,589
Held by broker -US Agency Securities		<u>495,370</u>
Total cash and investments	\$	<u><u>4,009,959</u></u>

Investments Authorized by the California Government Code and the District's Investment Policy:

The table herein identifies the investment types that are authorized for the District by the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. The table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

PICO WATER DISTRICT

**NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2015**

NOTE 2 - CASH AND INVESTMENTS: (continued)

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	5 years	None	None
U.S. Government Sponsored Agency Securities	5 years	None	None
State of California Obligations	5 years	None	None
California Warrants, Notes or Bonds	5 years	None	None
Negotiable Certificates of Deposit	5 years	30%	None
CD Placement Services	5 years	30%	None
Banker's Acceptance	180 days	40%	30%
Repurchase Agreements	1 year	20%	None
Commercial Paper	270 days	25%	10%
Medium-term Notes	5 years	30%	None
LAIF	N/A	None	None
County Pooled Investment Funds	N/A	None	None
Joint Powers Authority Pool	N/A	None	None
Mutual Funds and Money Market Mutual Funds	5 years	20%	10%

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. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the table herein that shows the distribution of the District's investments by maturity as of December 31, 2015.

<u>Investment Type</u>	<u>Totals</u>	<u>Remaining Maturity</u>	
		<u>12 Months Or Less</u>	<u>13 to 60 Months</u>
Local Agency Investment Fund (LAIF)	\$ 2,951,290	\$ 2,951,290	\$ -
Held by Broker -US Agency Securities	495,370	-	495,370
Total	<u>\$ 3,446,660</u>	<u>\$ 2,951,290</u>	<u>\$ 495,370</u>

PICO WATER DISTRICT

**NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2015**

NOTE 2 - CASH AND INVESTMENTS: (continued)

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 District's investments in LAIF are not rated.

Concentration of Credit Risk:

The District follows the investment policy as stipulated by the California Government Code as to the amount it may invest in any one issuer. At December 31, 2015, the District had no concentration of credit risk.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, the District 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 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, the District 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 District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

The District has certain investments which are not FDIC insured; however, the investments are eligible for SIPC coverage. SIPC does not provide blanket coverage. Instead, SIPC protects customers of SIPC-member broker-dealers if the firm fails financially. Coverage is up to \$500,000 per customer for all accounts at the same institution, including a \$250,000 limit for cash. At December 31, 2015, the District's deposits were either insured by the Federal Deposit Insurance Corporation, Securities Investor Protection Corporation or collateralized as required under California Law.

PICO WATER DISTRICT

**NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2015**

NOTE 2 - CASH AND INVESTMENTS: (continued)

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District’s investment in this pool is reported in the accompanying financial statements at amounts based upon the District’s pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

NOTE 3 - CAPITAL ASSETS:

A summary of the changes in capital assets for the year ended December 31, 2015 is as follows:

	Balance at 1/1/2015	Additions	Deletions	Balance at 12/31/2015
Non-depreciable assets:				
Land and Easements	\$ 21,578	\$	\$	\$ 21,578
Water rights	216,000			216,000
Construction in Progress	692,042		(648,226)	43,816
Total Capital Assets, not being depreciated	<u>929,620</u>	<u>-</u>	<u>(648,226)</u>	<u>281,394</u>
Depreciable assets:				
Wells and reservoirs	2,877,645	107,895		2,985,540
Pumps and tanks	713,315	2,699		716,014
Water treatment equipment	47,678			47,678
Transmission and distributions	11,182,717	544,629		11,727,346
General plant	1,800,987	103,211	(36,747)	1,867,451
Rental house	35,888			35,888
Total Depreciable Assets	<u>16,658,230</u>	<u>758,434</u>	<u>(36,747)</u>	<u>17,379,917</u>
Less Accumulated Depreciation	<u>(8,900,711)</u>	<u>(521,571)</u>	<u>36,747</u>	<u>(9,385,535)</u>
Total Capital Assets, being depreciated	<u>7,757,519</u>	<u>236,863</u>		<u>7,994,382</u>
Total Capital Assets, Net	<u>\$ 8,687,139</u>	<u>\$ 236,863</u>	<u>\$ (648,226)</u>	<u>\$ 8,275,776</u>

NOTE 4 - RISK MANAGEMENT:

The District is a member of the Association of California Water Agencies Joint Powers Insurance Authority (Insurance Authority). The Insurance Authority is a risk-pooling self-insurance authority, created under provisions of California Government Code Sections 6500 et. seq. The purpose of the Insurance Authority is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage.

PICO WATER DISTRICT

**NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2015**

NOTE 4 - RISK MANAGEMENT: (continued)

At December 31, 2015, the District participated in the self-insurance programs of the Insurance Authority as follows:

Property Loss - The Insurance Authority has pooled self-insurance up to \$100,000 per occurrence and has purchased excess insurance coverage of \$100,000,000 (total insurable value of \$3,705,779). The District has a \$2,500 deductible for buildings, personal property, fixed and mobile equipment and a \$500 deductible for licensed vehicles.

General Liability - The District is insured up to \$60,000,000 with no deductible. The Insurance Authority has pooled self-insurance of \$2,000,000 per occurrence and has purchased excess insurance coverage of \$58,000,000.

Auto Liability - The District is insured up to \$60,000,000 with no deductible. The Insurance Authority has pooled self-insurance of \$2,000,000 per occurrence and has purchased excess insurance coverage of \$58,000,000.

Workers' Compensation - Workers' compensation and employer's liability are insured up to \$4,000,000. The Insurance Authority has pooled self-insurance of \$2,000,000 per occurrence and has purchased excess insurance coverage of \$2,000,000.

Public Officials' Liability - The District has coverage for errors and omissions for up to \$60,000,000. The Insurance Authority has pooled self-insurance of \$2,000,000 per occurrence and has purchased excess insurance coverage of \$58,000,000.

Fidelity Bond - The Insurance Authority has pooled self-insurance up to \$100,000 per occurrence. The District has a \$1,000 deductible.

Earthquake and Flood - The District is insured up to \$25,000,000. The earthquake deductible is 5% of the total insurable values (\$3,271,193) at the time of loss, subject to a \$25,000 minimum per occurrence. The flood deductible is \$25,000 per occurrence.

The District pays annual premiums for the coverages. There were no instances in the past three years when a settlement exceeded the District's coverage.

PICO WATER DISTRICT

**NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2015**

NOTE 5 – PENSION PLAN – CALIFORNIA PUBLIC EMPLOYEES’ RETIREMENT SYSTEM (CalPERS)

The District participates in a cost sharing multiple-employer defined benefit plan through the California Public Employees’ Retirement System (CalPERS) which covers substantially all regular full-time employees of the District. CalPERS acts as a common investment and administrative agent for participating public entities within the state of California and reports information to the District in accordance with reporting standards established by the GASB.

As of December 31, 2015, the District implemented GASB Statements No. 68 and 71, and as a result, reported its proportionate share of the net pension liability, pension expense and deferred inflow of resources for the above plan and a deferred outflow of resources as follows:

<u>Pension Plan</u>	<u>Proportionate Share of Net Pension Liability</u>	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>	<u>Proportionate Share of Pension Expense</u>
CalPERS	\$ <u>64,847</u>	\$ <u>113,252</u>	\$ <u>264,169</u>	\$ <u>81,226</u>

Plan Description

Qualified employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Plan under the California Public Employees’ Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The Public Agency Cost-Sharing Multiple-Employer Plan is comprised of a Miscellaneous Risk Pool and a Safety Risk Pool. Individual employers may sponsor more than one Miscellaneous or Safety plan. The District sponsors one Miscellaneous Risk pool plan and the information presented below represents the allocated pension amounts for the District’s plan (the Plan). The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees’ Retirement Law

PICO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2015

**NOTE 5 – PENSION PLAN – CALIFORNIA PUBLIC EMPLOYEES’ RETIREMENT
SYSTEM (CalPERS) (continued)**

Plan Description (continued)

The Plan 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 year of service credit, a benefit factor and the member’s final compensation. Members hired by the district, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for employment-related disability benefits regardless of length of service and non-duty disability benefits after 4 years of service. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. The Post-Retirement Death Benefit is a one-time payment made to a retiree’s designated survivor or estate upon the retiree’s death. The Basic Death Benefit is paid to any member’s beneficiary if the member dies while actively employed. An employee’s eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least 5 years of credited service. The cost of living adjustments for the Plan are applied as specified by the Public Employees’ Retirement Law.

The Plan provisions and benefits in effect at December 31, 2015, are summarized as follows:

	<u>Miscellaneous Risk Pool</u>
Hire date	On or Before December 31, 2012
Benefit formula	2% at 55
Benefit vesting schedule	5 years of services
Benefit payments	Monthly for life
Retirement age	55
Required employee contribution rate	7.00%
Required employer contribution rate	9.454%

PICO WATER DISTRICT

**NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2015**

**NOTE 5 – PENSION PLAN – CALIFORNIA PUBLIC EMPLOYEES’ RETIREMENT
SYSTEM (CalPERS) (continued)**

Contributions

Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are determined annually through the CalPERS annual actuarial valuation process. 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. The contributions rates are express as percentage of annual payroll. The contribution rates for each plan for the year ended December 31, 2015 are presented above and the total District contributions were \$113,252.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of December 31, 2015, the District reported net pension liabilities for its proportionate share of Miscellaneous Risk Pool net pension liability totaling \$64,847. The net pension liability was measured as of June 30, 2014. 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. At December 31, 2015, the District’s proportion was 0.00104%.

For the year ended December 31, 2015, the District recognized pension expense of \$81,226. At December 31, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contribution subsequent to measurement date	\$ 113,252	\$ -
Net differences between projected and actual earnings on plan investments		264,169
Differences between contributions and proportionate share of contributions		-
	<u>\$ 113,252</u>	<u>\$ 264,169</u>

PICO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2015

**NOTE 5 – PENSION PLAN – CALIFORNIA PUBLIC EMPLOYEES’ RETIREMENT
SYSTEM (CalPERS) (continued)**

**Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred
Inflows of Resources Related to Pensions (continued)**

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. The deferred inflows of resources and any remaining deferred outflows of resources will be amortized over a closed period of between 3.8 and 5 years and will be recognized as a reduction in pension expense as follows:

<u>Year Ended</u> <u>December 31,</u>	<u>Amortization</u>
2016	\$ 63,642
2017	63,642
2018	65,242
2019	<u>71,643</u>
	<u>\$ 264,169</u>

Actuarial Methods and Assumptions

Total pension liability for the Plan was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2013, and rolling forward the total pension liability to June 30, 2014. The financial reporting actuarial valuation as of June 30, 2013 used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2013
Measurement date	June 30, 2014
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.50%
Investment rate of return	7.50%
Consumer price inflation	2.75%
Wage growth	Varies by entry age and service

PICO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2015

**NOTE 5 – PENSION PLAN – CALIFORNIA PUBLIC EMPLOYEES’ RETIREMENT
SYSTEM (CalPERS) (continued)**

Actuarial Methods and Assumptions (continued)

Mortality assumptions are based on mortality rates resulting from the most recent CalPERS experience study adopted by the CalPERS Board. For purposes of the post-retirement mortality rates, those revised rates include 20 years of mortality improvement using Scale BB published by the Society of Actuaries. 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 Plan’s asset classes, expected compound (geometric) 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 the Plan. 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 target allocation and best estimates of long-term expected real rate of return by asset class are summarized in the following table:

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Global equity	47.00%	5.25%
Global fixed income	19.00%	0.99%
Inflation sensitive	6.00%	0.45%
Private Equity	12.00%	6.83%
Real Estate	11.00%	4.50%
Infrastructure and Forestland	3.00%	4.50%
Liquidity	2.00%	-0.55%

PICO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2015

**NOTE 5 – PENSION PLAN – CALIFORNIA PUBLIC EMPLOYEES’ RETIREMENT
SYSTEM (CalPERS) (continued)**

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the Plan’s fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

The following presents the District’s proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

<u>Discount rate</u>	<u>Net Pension Liability</u>
1% decreases (6.50%)	\$ 626,937
Current discount rate (7.50%)	64,847
1% increase (8.50%)	(401,635)

Plan Fiduciary Net Position

Detailed information about CalPERS Miscellaneous Risk Plan fiduciary net position is available in a separate comprehensive annual financial report. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

PICO WATER DISTRICT

**NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2015**

NOTE 6 – OTHER POST-EMPLOYMENT BENEFITS:

Plan Description

In addition to the pension benefits described in Note 5, the District provides a post-retirement health care benefits for retired employees, directors who have served the District full-time for at least six consecutive years and who are at least 55 years of age at the time of retirement, and spouses. As of the July 1, 2015 actuarial report, 6 retired employees, directors and spouses were eligible to receive health, vision and dental benefits.

Funding Policy

The contribution requirements of the plan are set by the District and the District's Board of Directors. Currently, contributions are not required from plan members. The District has established a trust to fund future OPEB benefits. During the year ended December 31, 2015, the District paid \$52,705 in benefits for its retirees and their covered dependents and made a contribution of \$70,000 to the OPEB trust.

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs and to amortize any unfunded actuarial liabilities of the plan over a period not to exceed 30 years. The ARC for the year ended December 31, 2015 was \$106,148 and was determined as part of an actuarial valuation as of July 1, 2015.

The following table shows the component of the District's annual OPEB costs for the year, the amount actually contributed to the plan, and changes in the District's net OPEB asset.

Annual OPEB cost:		
Annual required contribution (ARC)	\$	106,148
Interest on net OPEB obligation		41,248
Adjustment to ARC		<u>(40,142)</u>
Total annual OPEB cost		107,254
Change in net OPEB obligation:		
Actual contributions made		<u>(122,705)</u>
Total change in Net OPEB obligation		(15,451)
Net OPEB obligation - beginning of year		<u>634,580</u>
Net OPEB obligation - end of year	\$	<u><u>619,129</u></u>

PICO WATER DISTRICT

**NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2015**

NOTE 6 – OTHER POST-EMPLOYMENT BENEFITS: (continued)

Three-Year Trend Information

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation (asset) for the year ended December 31, 2015, 2014 and 2013 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Actual Contribution	Percent of Annual OPEB Cost Contributed	Net OPEB Obligation Payable
12/31/2013	\$ 136,501	\$ 137,797	101%	\$ 612,463
12/31/2014	139,824	117,707	84%	634,580
12/31/2015	107,254	122,705	114%	619,129

Funded Status and Funding Progress

As of July 1, 2015, the most recent actuarial valuation date, the plan was 16% funded. The actuarial accrued liability for benefits was \$1,208,959, and the actuarial value of assets was \$190,793 resulting in an unfunded actuarial accrued liability (UAAL) of \$1,018,166. There are 11 active employees and directors covered by the plan. The covered payroll (annual payroll of active employees covered by the plan) was \$838,288 and the ratio of the UAAL to the covered payroll was 121.46%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about mortality, and the healthcare costs trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the District are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to basic financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

PICO WATER DISTRICT

**NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2015**

NOTE 6 – OTHER POST-EMPLOYMENT BENEFITS: (continued)

Actuarial Methods and Assumptions

Projections of benefits for financial report purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members at that point. The actuarial methods and assumptions used include techniques that are designated to reduce the effect of short-term volatility in actuarial accrued liabilities and the actuarial value of assets consistent with the long-term perspective of the calculation.

In the July 1, 2015 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a discount rate of 6.5% per annum using the: Building Block Method” as described in ASOP 27 Paragraph 3.6.2. A healthcare cost trend rate of 4% per year was used. Retirement rates and mortality rates are consistent with those used in the most recent CalPERS Miscellaneous 2% at 55 Risk Pool actuarial valuation. The District’s initial unfunded actuarial liability is amortized using a level percent closed 30-year amortization. A level percent open 24-year amortization period was used for any residual UAAL. A 5 year smoothing formula with a 20% corridor around market value was used for the actuarial value of plan assets.

NOTE 7 – CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE:

The beginning net position of the financial statements has been decreased \$296,990 to recognize the beginning balance of the net pension liability and deferred outflows of resources resulting from the implementation of GASB Statement No. 68 and No. 71. The beginning net position was not restated for the effect of deferred inflows of resources as the amount was not practical to determine. The cumulative effect of the change in accounting principle was as follows:

Inclusion of net pension liability from the adoption of GASB Statement No. 68	\$ (421,533)
Inclusion of deferred outflows of resources from the adoption of GASB Statement No. 68	<u>124,543</u>
Cumulative effect of change in accounting principle	<u><u>\$ (296,990)</u></u>

NOTE 8 - SUBSEQUENT EVENTS:

All events subsequent to the statement of net position date of December 31, 2015 through May 17, 2016, which is the date these financial statements were available to be issued, have been evaluated by management.

REQUIRED SUPPLEMENTARY INFORMATION

PICO WATER DISTRICT

SCHEDULE OF FUNDING PROGRESS

OTHER POST-EMPLOYMENT BENEFIT OBLIGATIONS

For the Year Ended December 31, 2015

Actuarial Valuation Date	Actuarial Accrued Liability	Actuarial Value of Assets	Actuarial Unfunded Liability	Funded Ratio	Annual Covered Payroll	% of Unfunded Liability to Annual Covered Payroll
1/1/2011	\$ 2,534,464	\$ -	\$ 2,534,464	0%	\$ 800,665	316.55%
1/1/2013	1,496,829		1,496,829	0%	801,405	186.78%
7/1/2015	1,208,959	190,793	1,018,166	16%	838,288	121.46%

The decrease in the unfunded AAL as of January 1, 2014 is a result of the decision of the board of directors and management to pre-fund its post-employment benefit program by contributing each year's Annual OPEB cost to a Trust beginning in 2014. As a result, the discount rate used in the valuation was increased from 3.5% (2011) to 7.0% (2014). The District made contributions to the trust of \$85,000 in 2013, \$60,000 in 2014 and \$70,000 in 2015.

See the accompanying notes to the required supplementary information.

PICO WATER DISTRICT

**SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
For the Year Ended December 31, 2015**

	2015
District's proportion of the net pension liability (assets)	0.00104%
District's proportionate share of the net pension liability (asset)	\$ 64,847
District's covered-employee payroll reported as of the previous fiscal year to align with the measurement date of the net pension liability	\$ 616,120
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	10.53%
Plan fiduciary net position as a percentage of the total pension liability	98.47%

Note: Accounting standards require presentation of 10 years of information. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule as future data becomes available.

Amounts for covered payroll are reported as of the previous fiscal year to align with the measurement date of the net pension liability.

See the accompanying notes to the required supplementary information.

PICO WATER DISTRICT

SCHEDULE OF DISTRICT'S CONTRIBUTIONS
CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
For the Year Ended December 31, 2015

	2015
Contractually required contribution	\$ 70,082
Contributions in relation to the contractually required contribution	70,082
Contribution deficiency (excess)	\$ -
District's covered-employee payroll	\$ 644,476
Contributions as a percentage of covered employee payroll	10.87%

Note: Accounting standards require presentation of 10 years of information. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule as future data becomes available.

See the accompanying notes to the required supplementary information.

PICO WATER DISTRICT

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended December 31, 2015**

NOTE 1 – PURPOSE OF SCHEDULES:

A. Schedule of Funding Progress

The schedule is intended to show trends about the funding progress of the District's actuarially determined liability for postemployment benefits other than pensions.

B. Schedule of District's Proportionate Share of the Net Pension Liability

The schedule presents information on the District's proportionate share of the net pension liability and the plans' fiduciary net position. In the future, as data becomes available, 10 years of information will be presented.

C. Schedule of District's Contributions

The schedule presents information on the District's required contribution, the amounts actually contributed and any excess or deficiency related to the required contribution. In the future, as data becomes available, 10 years of information will be presented.

SUPPLEMENTARY INFORMATION

PICO WATER DISTRICT
SCHEDULE OF OPERATING REVENUES
For the Year Ended December 31, 2015

Water sales revenues:	
Residential	\$ 1,533,032
Multi-user	492,992
Business	482,325
Other	<u>360,908</u>
Total water sales revenues	<u><u>2,869,257</u></u>
Water service revenues	
Late charges	61,841
Fire protection	50,192
Infrastructure Surcharge	383,942
Other	<u>122,774</u>
Total water service revenues	<u><u>618,749</u></u>
Other income	<u>33,043</u>
Total operating revenues	<u><u>\$ 3,521,049</u></u>

See the independent auditor's report and accompanying notes to the supplementary information.

PICO WATER DISTRICT
SCHEDULE OF OPERATING EXPENSES
For the Year Ended December 31, 2015

Source of supply	
Ground water replenishment	\$ 765,966
Recycled water	21,891
Salaries and wages	63,188
Total source of supply	<u>851,045</u>
Pumping	
Power	197,527
Maintenance	56,418
Salaries and wages	178,742
Total pumping	<u>432,687</u>
Water treatment	
Water treatment regulations	41,097
Maintenance	19,500
Salaries and wages	4,090
Total water treatment	<u>64,687</u>
Transmission and distribution	
Maintenance	115,346
Vehicle expenses	25,547
Salaries and wages	66,089
Total transmission and distribution	<u>206,982</u>
Customer accounts	
Supplies	65,123
Salaries and wages	159,055
Total customer accounts	<u>224,178</u>
Depreciation	<u>521,571</u>

See the independent auditor's report and accompanying notes to the supplementary information.

PICO WATER DISTRICT
SCHEDULE OF OPERATING EXPENSES
For the Year Ended December 31, 2015

General and administrative

Directors' fees	41,760
Election cost	30,453
Insurance	291,769
Meetings and dues	28,208
Miscellaneous	37,025
Office supplies	11,385
OPEB expense	54,549
Payroll taxes	70,201
Pension plan	23,389
Professional services	118,146
Repairs and maintenance	53,109
Salaries and wages	362,255
Telephone and utilities	17,526
Conservation	7,046
Education	1,439
Publications and journals	4,670
Total general and administrative	<u>1,152,930</u>
Total operating expenses	<u><u>\$ 3,454,080</u></u>

See the independent auditor's report and accompanying notes to the supplementary information.



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors
Pico Water District
Pico Rivera, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Pico Water District (District), as of and for the year ended December 31, 2015 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 17, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vicenti, Lloyd & Stutzman LLP

VICENTI, LLOYD & STUTZMAN LLP
Glendora, California
May 17, 2016