PICO WATER DISTRICT

FINANCIAL STATEMENTS

WITH REPORT ON AUDIT
BY INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

DECEMBER 31, 2014

Approved by the Pico Water District Board of Directors on July 15, 2015

PICO WATER DISTRICT

TABLE OF CONTENTS

December 31, 2014

INDEPENDENT AUDITORS' REPORT

Board of Directors
Pico Water District
Pico Rivera, California

We have audited the accompanying financial statements of Pico Water District (the District) as of and for the year ended December 31, 2014, 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. 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 auditors' 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 auditors consider 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.

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, 2014 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, as well as the accounting systems prescribed by the State Controller's Office and State Regulations governing Special Districts.

Other Matters

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of funding progress other post-employment benefits plan, as identified in the accompanying table of contents, 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The schedules of operating revenues and operating expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules of operating revenues and operating expenses are the responsibility of management and were derived from and relate 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 schedules of operating revenues and operating expenses are fairly stated, in all material respects, in relation to the financial statements as a whole.

White Nelson Diehl Evans LLP

Irvine, California
July 15, 2015

MANAGEMENT’S DISCUSSION AND ANALYSIS

December 31, 2014

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, 2014. Please read it in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's net position increased by $151,800 or 1.35 percent.
- During the year the District's total revenues decreased by $34,723 or 0.94 percent, and expenses increased by $143,438 or 4.26 percent.

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. 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 9 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.

NET POSITION

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

TABLE 1
Condensed Statements of Net Position

	Year 2014	Year 2013	Dollar Change	Total Percent Change
Assets:				
Current Assets	$ 4,242,059	$ 4,703,626	$ (461,567)	(9.81) %
Capital Assets	8,687,139	7,887,627	799,512	10.14 %
Total Assets	12,929,198	12,591,253	337,945	2.68 %
Liabilities:				
Current Liabilities	829,189	669,182	160,007	23.91 %
Noncurrent Liabilities	736,863	710,725	26,138	3.68 %
Total Liabilities	1,566,052	1,379,907	186,145	13.49 %
Net Position:				
Net Investment in Capital Assets	8,687,139	7,887,627	799,512	10.14 %
Unrestricted	2,676,007	3,323,719	(647,712)	(3.80) %
Total Net Position	$11,363,146	$ 11,211,346	$ 151,800	1.35 %

As can be seen from Table 1, net position increased by $151,800 from fiscal year 2013 to 2014. The net position increase of $151,800 consisted of increases of $799,512 in invested in capital assets and a decrease of $647,712 in unrestricted net position.

See independent auditors' report.

NET POSITION (CONTINUED)

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

	Year 2014	Year 2013	Dollar Change	Total Percent Change
Revenues:				
Operating Revenues	$ 3,500,166	$ 3,477,452	$ 22,714	0.65 %
Nonoperating Revenues	28,386	29,224	(838)	(2.87) %
Capital Contributions	133,339	189,938	(56,599)	(29.80) %
Total Revenues	3,661,891	3,696,614	(34,723)	(0.94) %
Expenses:				
Depreciation Expense	486,519	524,752	(38,233)	(7.29) %
Other Operating Expenses	3,021,596	2,836,602	184,994	6.52 %
Nonoperating Expenses	1,976	5,299	(3,323)	(62.71) %
Total Expenses	3,510,091	3,366,653	143,438	4.26 %
Changes in Net Position	151,800	329,961	(178,161)	(53.99) %
Beginning Net Position	11,211,346	10,881,385	329,961	3.03 %
Ending Net Position	$ 11,363,146	$ 11,211,346	$ 151,800	1.35 %

A closer examination of the source of changes in net position reveals that the District's total revenues decreased by $34,723 in 2014 primarily due to a decrease in capital contributions. In addition, operating expenses (exclusive of depreciation) have increased in 2014 by $184,994.

BUDGETARY HIGHLIGHTS

TABLE 3
2014 Actual vs. 2014 Budget

	Year 2014 Actual	Year 2014 Budget	Variance
Revenues:			
Operating Revenues	$ 3,500,166	$ 3,454,200	$ 45,966
Nonoperating Revenues	28,386	30,500	(2,114)
Capital Contributions	133,339	-	133,339
Total Revenues	3,661,891	3,484,700	177,191
Expenses:			
Operating Expenses:			
Source of supply	935,471	969,700	34,229
Pumping	467,353	404,200	(63,153)
Water treatment	67,878	67,200	(678)
Transmission and distribution	198,842	208,300	9,458
Customer accounts	197,894	191,400	(6,494)
Depreciation	486,519	497,000	10,481
General and administrative	1,154,158	1,125,000	(29,158)
Nonoperating expenses	1,976	3,100	1,124
Total Expenses	3,510,091	3,465,900	(44,191)
Changes in Net Position	$ 151,800	$ 18,800	$ 133,000

As Table 3 shows, actual change in net position is $133,000 higher than the budgeted change in net position. The difference is primarily due to higher expenses off-set with higher than expected revenues. Specifically, capital contributions were not anticipated and not included in the budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At December 31, 2014, the District's investments in a broad range of infrastructure as shown in Table 4 totaled $8,687,139.

TABLE 4
Capital Assets

	Year 2014	Year 2013	Total Dollar Change	Percentage Change
Land	$ 21,578	$ 21,578	$ -	-
Water rights	216,000	216,000	-	-
Construction in progress	692,042	294,640	397,402	134.88 %
Wells and reservoirs	2,877,645	2,777,028	100,617	36.32 %
Pumps and tanks	713,315	658,155	55,160	8.38 %
Water treatment equipment	47,678	45,698	1,980	4.33 %
Transmission and distribution	11,182,717	10,513,567	669,150	6.36 %
General plant	1,800,987	1,739,265	61,722	3.55 %
Rental house	35,888	35,888	-	-
Total Assets	17,587,850	16,301,819	1,286,031	7.89 %
Less accumulated depreciation	(8,900,711)	(8,414,192)	(486,519)	5.78 %
Net capital assets	$ 8,687,139	$ 7,887,627	$ 799,512	10.14 %

The major capital asset additions for the year 2014 comprised of three new handhelds, board audio system, two new trucks, well #10 rehabilitation, meters, services, hydrants and valves.

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.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET AND RATES

The District’s Board of Directors and management considered many factors when setting the 2015 budget; user fees and charges, water usage patterns, increases by regulatory agencies and utilities, and staffing. The District annually balances revenues with operating expenses. However, due to escalating health benefits, increased water replenishment costs, regulation, decreased return on investment, and decreased water sales the District has seen its’ net income impacted severely. In an effort to address these impacts the District has worked to lower utility costs, wherever possible, and placed a hold on any new hiring other than the current work force.

These indicators were taken into consideration when adopting the District’s budget for the year 2015. The budget has been structured to the highest level of service at the most reasonable cost to our customers.

TABLE 5
Fiscal Year 2014 Actual vs. Fiscal Year 2015 Budget

	Actual Year 2014	Budget Year 2015	Dollar Change	Total Percent Change
Revenues:				
Operating Revenues	$ 3,500,166	$ 3,758,150	$ 257,984	7.37%
Nonoperating Revenues	28,386	21,500	(6,886)	(24.26)%
Capital Contributions	133,339	-	(133,339)	(100.00)%
Total Revenues	3,661,891	3,779,650	117,759	3.22%
Expenses:				
Depreciation Expense	486,519	525,000	(38,481)	(7.91)%
Other Operating Expenses	3,021,596	3,142,187	(120,591)	(3.99)%
Nonoperating Expenses	1,976	5,100	(3,124)	(158.08)%
Total Expenses	3,510,091	3,672,287	(162,196)	(4.62)%
Changes in Net Position	151,800	107,363	(44,437)	(29.27)%
Beginning Net Position	11,211,346	11,363,146	151,800	1.35%
Ending Net Position	$ 11,363,146	$ 11,470,509	$ 107,363	0.95%

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 General Manager, Mr. Mark Grajeda at Pico Water District.

BASIC FINANCIAL STATEMENTS

PICO WATER DISTRICT

STATEMENT OF NET POSITION

December 31, 2014

ASSETS

CURRENT ASSETS:	
Cash and investments	$ 3,490,954
Accounts receivable:	
Billed, net	259,982
Unbilled	198,827
Accrued interest receivable	1,985
Other receivables	26,071
Inventory of material and supplies	216,562
Prepaid expenses	47,678
TOTAL CURRENT ASSETS	4,242,059
NONCURRENT ASSETS:	
CAPITAL ASSETS:	
Capital assets, not being depreciated:	
Land	21,578
Water rights	216,000
Construction in progress	692,042
Capital assets, being depreciated:	
Wells and reservoirs	2,877,645
Pumps and tanks	713,315
Water treatment equipment	47,678
Transmission and distribution	11,182,717
General plant	1,800,987
Rental house	35,888
Less accumulated depreciation	(8,900,711)
CAPITAL ASSETS, NET	8,687,139
TOTAL ASSETS	12,929,198

(Continued)

See independent auditors' report and notes to basic financial statements.

PICO WATER DISTRICT

STATEMENT OF NET POSITION
(CONTINUED)

December 31, 2014

LIABILITIES AND NET POSITION

CURRENT LIABILITIES:		
Accounts payable	$	373,965
Retentions payable		30,701
Accrued expenses		20,742
Compensated absences payable - current		8,777
Refundable deposits		395,004
TOTAL CURRENT LIABILITIES		829,189
LONG-TERM LIABILITIES:		
Compensated absences payable		102,283
Other post-employment benefits (OPEB) liability		634,580
TOTAL LONG-TERM LIABILITIES		736,863
TOTAL LIABILITIES		1,566,052
NET POSITION:		
Net investment in capital assets		8,687,139
Unrestricted		2,676,007
TOTAL NET POSITION	$	11,363,146

See independent auditors' 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, 2014

OPERATING REVENUES:	
Water sales	$ 3,288,618
Water services	192,239
Other income	19,309
TOTAL OPERATING REVENUES	3,500,166
OPERATING EXPENSES:	
Source of supply	935,471
Pumping	467,353
Water treatment	67,878
Transmission and distribution	198,842
Customer accounts	197,894
Depreciation	486,519
General and administrative	1,154,158
TOTAL OPERATING EXPENSES	3,508,115
OPERATING LOSS	(7,949)
NONOPERATING REVENUES (EXPENSES):	
Interest income	9,861
Rental income	18,525
Rental house repairs and maintenance	(1,976)
TOTAL NONOPERATING REVENUES (EXPENSES)	26,410
INCOME BEFORE CAPITAL CONTRIBUTIONS	18,461
CAPITAL CONTRIBUTIONS	133,339
CHANGE IN NET POSITION	151,800
NET POSITION - BEGINNING OF YEAR	11,211,346
NET POSITION - END OF YEAR	$ 11,363,146

See independent auditors' report and notes to basic financial statements.

PICO WATER DISTRICT

STATEMENT OF CASH FLOWS

For the year ended December 31, 2014

CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from consumers	$ 3,575,448
Payments to suppliers	(2,077,283)
Payments to employees	(824,444)
NET CASH PROVIDED BY OPERATING ACTIVITIES	673,721
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition and construction of capital assets	(1,286,031)
Receipt of capital contributions	133,339
Payments for rental house repairs and maintenance	(1,976)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(1,154,668)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Net maturity (purchase) of certificates of deposit	(1,971)
Proceeds from rental income	18,525
Investment income	10,071
NET CASH PROVIDED BY INVESTING ACTIVITIES	26,625
NET DECREASE IN CASH AND CASH EQUIVALENTS	(454,322)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	3,700,190
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 3,245,868

(Continued)

See independent auditors' report and notes to basic financial statements.

PICO WATER DISTRICT

STATEMENT OF CASH FLOWS
(CONTINUED)

For the year ended December 31, 2014

RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	$	(7,949)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation		486,519
Change in assets and liabilities:		
(Increase) decrease in accounts receivables		(5,535)
(Increase) decrease in other receivables		35,504
(Increase) decrease in inventory of materials and supplies		(22,409)
(Increase) decrease in prepaid expenses		1,447
Increase (decrease) in accounts payable		91,761
Increase (decrease) in retentions payable		24,860
Increase (decrease) in accrued expenses		2,163
Increase (decrease) in compensated absences		(70)
Increase (decrease) in refundable deposits		45,313
Increase (decrease) in OPEB liability		22,117
NET CASH PROVIDED BY OPERATING ACTIVITIES	$	673,721

See independent auditors' report and notes to basic financial statements.

THIS PAGE INTENTIONALLY LEFT BLANK

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

   a. 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 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.

   b. 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 (a) 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 (b) 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.

   c. 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

d. New Accounting Pronouncements:

Current Year Standards:

GASB 66 - *"Technical Corrections, an amendment of GASB Statement No. 10 and Statement No. 62"*, required to be implemented in the current fiscal year did not impact the District.

GASB 69 - *"Government Combinations and Disposals of Government Operations"*, effective for periods beginning after December 15, 2013.

GASB 70 - *"Accounting and Financial Reporting for Nonexchange Financial Guarantees"*, required to be implemented in the current fiscal year did not impact the District.

Pending Accounting Standards

GASB has issued the following statements which may impact the District's financial reporting requirements in the future:

- GASB 68 - *"Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27"*, effective for the fiscal years beginning after June 15, 2014.
- GASB 71 - *"Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68"*, effective for periods beginning after June 15, 2014.
- GASB 72 - *"Fair Value Measurement and Application"*, effective for periods beginning after June 15, 2015.
- GASB 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 Statement 67 and 68"*, effective for periods beginning after June 15, 2015 – except for those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for periods beginning after June 15, 2016.
- GASB 74 - *"Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans"*, effective for periods beginning after June 15, 2016.
- GASB 75 - *"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"*, effective for periods beginning after June 15, 2017.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

e. 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, 2014, 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.

f. 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, 2014, 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. See Note 2 for reconciliation of cash and cash equivalents to cash and investments reported on statement of net position.

g. 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, 2014. The reserve at year end was $18,845.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

h. 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.

i. Capital Assets and Depreciation:

Capital assets are stated at historical cost, net of accumulated depreciation. District policy 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.

j. 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.

k. 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

l. 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.

m. Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, 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. The District does not have any applicable deferred outflows of resources.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, 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. The District does not have any applicable deferred inflows of resources.

n. 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.

o. 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.

2. CASH AND INVESTMENTS:

Cash and Investments:

Cash and investments as December 31, 2014 consisted of the following:

Cash on hand	$ 700
Deposits with financial institutions	302,210
Investments in Local Agency Investment Fund	2,942,958
Total cash and cash equivalents	3,245,868
FDIC - Insured - Certificate of Deposit	245,086
Total cash and investments	$ 3,490,954

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

The table below 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.

Authorized Investment Type	Maximum Maturity	Percentage of Portfolio	Maximum Investment in One Issuer
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
CA Local Agency Obligations	5 years	None	None
Negotiable Certificates of Deposit	5 years	30%	5%
CD Placement Service	5 years	30%	None
Bankers Acceptances	180 days	40%	30%
Repurchase Agreements	1 year	20%	None
Commercial Paper	270 days	25%	10%
Medium-term Notes	5 years	30%	None
California Local Agency Investment Fund (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	N/A	20%	10%

N/A - Not Applicable

2. CASH AND INVESTMENTS (CONTINUED):

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 following table that shows the distribution of the District's investments by maturity as of December 31, 2014.

Investment	Remaining Maturity (in Years) Less Than 1 Year
FDIC - Insured - Certificate of Deposit	$ 245,086
Local Agency Investment Fund	2,942,958
	$ 3,188,044

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 places no limit on the amount it may invest in any one issuer. At December 31, 2014, the District had no concentration of credit risk.

2. CASH AND INVESTMENTS (CONTINUED):

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. At December 31, 2014, the District's deposits were either insured by the Federal Deposit Insurance Corporation or collateralized as required under California Law.

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.

3. CAPITAL ASSETS:

A summary of the changes in capital assets for the year ended December 31, 2014 is as follows:

	Balance December 31, 2013	Additions and Transfers	Dispositions and Transfers	Balance December 31, 2014
Capital assets, not being depreciated:				
Land	$ 21,578	$ -	$ -	$ 21,578
Water rights	216,000	-	-	216,000
Construction in progress	294,640	1,124,926	(727,524)	692,042
Total capital assets, not being depreciated	532,218	1,124,926	(727,524)	929,620
Capital assets, being depreciated:				
Wells and reservoirs	2,777,028	100,617	-	2,877,645
Pumps and tanks	658,155	55,160	-	713,315
Water treatment equipment	45,698	1,980	-	47,678
Transmission and distribution	10,513,567	669,150	-	11,182,717
General plant	1,739,265	61,722	-	1,800,987
Rental house	35,888	-	-	35,888
Total capital assets, being depreciated	15,769,601	888,629	-	16,658,230
Less accumulated depreciation:				
Wells and reservoirs	(2,194,646)	(93,753)	-	(2,288,399)
Pumps and tanks	(499,046)	(14,546)	-	(513,592)
Water treatment equipment	(42,240)	(1,050)	-	(43,290)
Transmission and distribution	(4,560,914)	(307,797)	-	(4,868,711)
General plant	(1,093,661)	(67,466)	-	(1,161,127)
Rental house	(23,685)	(1,907)	-	(25,592)
Total accumulated depreciation	(8,414,192)	(486,519)	-	(8,900,711)
Total capital assets, being depreciated, net	7,355,409	402,110	-	7,757,519
Total capital assets, net	$ 7,887,627	$ 1,527,036	$ (727,524)	$ 8,687,139

See independent auditors' report.

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.

At December 31, 2014, 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.

5. EMPLOYEE RETIREMENT PLAN:

a. Plan Description:

The Districts' pension plan is part of the Miscellaneous 2% at 55 and 2% at 62 Risk Pool of the California Public Employees Retirement System (CalPERS), a cost-sharing multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. The risk pool combines the assets and liabilities across employers of the same risk pool to provide a method to spread the risk of uncertain gains and losses over a large base of members. Benefit provisions and all other requirements are established by State statute and District resolutions. Copies of CalPERS' annual financial report may be obtained from their Executive Office located at, 400 P Street, Sacramento, CA 95814.

b. Funding Policy:

Active plan members of the CalPERS 2% at 55 Risk Pool Retirement Plan are required to contribute 7% of their annual covered salary. The District has elected to contribute the employee portion. The District is also required to contribute any actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the periods January 1, 2014 to June 30, 2014 and July 1, 2014 to December 31, 2014 were 5.239% and 9.226%, respectively.

Upon the implementation of the California Employees' Pension Reform Act (PEPRA) on January 1, 2014, the CalPERS 2% at 62 Risk Pool Retirement Plan was created and is open to all new employees who do not qualify for the 2% at 55 Risk Pool Retirement Plan. Active plan members of the Plan are required to contribute 6.5% of their annual covered salary, which is paid by the employees. The required employer contribution rates for the 2% at 62 Risk Pool Retirement Plan for fiscal year 2014 is 6.5%. This plan currently has one member.

The contribution requirements of the plan members and the District are established and may be amended by State statute. The employer contribution rate is established and may be amended by CalPERS. The District's contributions to CalPERS for the years ended December 31, 2014, 2013, and 2012 were $124,543, $90,180 and $73,262, respectively. These contributions were equal to the required contributions for each year.

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 December 31, 2014, 8 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, 2014, the District paid $57,707 in benefits for its retirees and their covered dependents and made a contribution of $60,000 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 of any unfunded actuarial liabilities of the plan over a period not to exceed 30 years. The ARC for the year ended December 31, 2014 was $135,954 and was determined as part of an actuarial valuation as of January 1, 2013.

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 required contribution (ARC)	$ 135,954
Interest adjustment on net OPEB obligation	42,872
Amortization adjustment to ARC	(39,002)
Annual OPEB cost	139,824
Actual contributions made	(117,707)
Increase in net OPEB obligation	22,117
Net OPEB Obligation - beginning of year	612,463
Net OPEB Obligation - end of year	$ 634,580

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 years ended December 31, 2014, 2013 and 2012 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Actual Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/12	$ 227,533	$ 56,863	24.99%	$ 613,759
12/31/13	136,501	137,797	100.95%	612,463
12/31/14	139,824	117,707	84.18%	634,580

Funded Status and Funding Progress

As of January 1, 2013, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was $1,496,829, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $1,496,829. There are 16 active employees and directors covered by the plan. The covered payroll (annual payroll of active employees covered by the plan) was $801,405 and the ratio of the UAAL to the covered payroll was 186.78%.

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 cost 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. There has only been two actuarial valuations preformed on the plan, therefore only two years of the plan funding progress are shown.

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 calculations.

In the January 1, 2013 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a discount rate of 7.0% per annum and a healthcare cost trend rate starting at 7.0% and decreasing to an ultimate rate of 5.0% in 8 years for medical coverage and a 2.0% rate for dental and vision coverage. 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 unfunded actuarial accrued liability is being amortized by level dollar contributions over a closed 30-year period as a level dollar amount.

7. COMMITMENTS AND CONTINGENCIES:

In 2014, the District was notified of a joint grade separation project on Durfee Avenue being performed by other governmental agencies that would require the relocation of certain District water distribution facilities. The cost of such relocation is expected to be significant. If the District is able to prove it had prior rights to that location then there would be no cost to the District. If the District is unable to prove it had prior rights to that location then it would be liable for a portion of the costs. As of the date the financial statements have been issued, it is possible that the District would be responsible for the cost of materials for the relocation. This cost is estimated within a range of $150,000 to $275,000. The District plans to pursue proving prior rights to the location to avoid incurring any costs related to this project.

8. SUBSEQUENT EVENTS:

All events subsequent to the statement of net position date of December 31, 2014 through July 15, 2015, 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

For the year ended December 31, 2014

OTHER POST-EMPLOYMENT BENEFITS PLAN

Actuarial Valuation Date	Actuarial Accrued Liability (AAL) (a)	Actuarial Value of Assets (AVA) (b)	Unfunded AAL (UAAL) (a) - (b)	Funded Ratio (b)/(a)	Annual Covered Payroll (c)	UAAL as a % of Covered Payroll [(a)-(b)]/(c)
1/1/2011	$ 2,534,464	$ -	$ 2,534,464	0.00%	$ 800,665	316.55%
1/1/2013	1,496,829	-	1,496,829	0.00%	801,405	186.78%

The decrease in the unfunded AAL as of January 1, 2013 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 2013. As a result, the discount rate used in the valuation was increased from 3.5% (2011) to 7.0% (2013).

See independent auditors' report.

THIS PAGE INTENTIONALLY LEFT BLANK

SUPPLEMENTAL INFORMATION

PICO WATER DISTRICT

SCHEDULE OF OPERATING REVENUES

For the year ended December 31, 2014

WATER SALES REVENUES:	
Residential	$ 1,838,501
Multi-user	569,901
Business	500,866
Other	379,350
TOTAL WATER SALES REVENUES	3,288,618
WATER SERVICES REVENUES:	
Late charges	67,321
Fire protection	46,440
Other	78,478
TOTAL WATER SERVICES REVENUES	192,239
OTHER INCOME	19,309
TOTAL OPERATING REVENUES	$ 3,500,166

See independent auditors' report.

PICO WATER DISTRICT

SCHEDULE OF OPERATING EXPENSES

For the year ended December 31, 2014

SOURCE OF SUPPLY:	
Ground water replenishment	$ 852,517
Recycled water	24,862
Salaries and wages	58,092
TOTAL SOURCE OF SUPPLY	935,471
PUMPING:	
Power	221,711
Maintenance	86,431
Salaries and wages	159,211
TOTAL PUMPING	467,353
WATER TREATMENT:	
Water treatment regulations	40,752
Maintenance	22,350
Salaries and wages	4,776
TOTAL WATER TREATMENT	67,878
TRANSMISSION AND DISTRIBUTION:	
Maintenance	90,681
Vehicle expenses	19,614
Salaries and wages	88,547
TOTAL TRANSMISSION AND DISTRIBUTION	198,842
CUSTOMER ACCOUNTS:	
Supplies	50,841
Salaries and wages	147,053
TOTAL CUSTOMER ACCOUNTS	197,894
DEPRECIATION	486,519

See independent auditors' report. (Continued)

PICO WATER DISTRICT

SCHEDULE OF OPERATING EXPENSES
(CONTINUED)

For the year ended December 31, 2014

GENERAL AND ADMINISTRATIVE:		
Directors' fees	$	39,840
Insurance		208,721
Meetings and dues		23,573
Miscellaneous		1,800
Office supplies		11,445
OPEB expense		139,824
Payroll taxes		73,537
Pension plan		124,543
Professional services		104,089
Repairs and maintenance		34,402
Salaries and wages		368,858
Telephone and utilities		16,347
Grant		3,000
Conservation		1,495
Education		230
Publications and journals		2,454
TOTAL GENERAL AND ADMINISTRATIVE		1,154,158
TOTAL OPERATING EXPENSES	$	3,508,115

See independent auditors' report.