

PICO WATER DISTRICT
FINANCIAL STATEMENTS
WITH REPORT ON AUDIT
BY INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS
DECEMBER 31, 2013

Approved by the Pico Water District Board of Directors on June 18, 2014

PICO WATER DISTRICT

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Pico Water District
Pico Rivera, California

We have audited the accompanying statement of net position of the Pico Water District (the District) as of and for the year ended December 31, 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended and the related notes to the financial statements.

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 Pico Water District as of December 31, 2013 and its changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America, as well as the accounting systems prescribed by the State Controller's Office and State Regulations governing Special Districts.

Other Matters

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, 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 on them.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of operating revenues and operating expenses are presented for purposes of additional analysis and are not a required part of the 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 Dick Evans LLP

Irvine, California
June 18, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

PICO WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2013

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, 2013. Please read it in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's net position increased by \$329,961 or 3.03 percent.
- During the year the District's total revenues increased by \$265,686 or 7.74 percent, and expenses increased by \$54,175 or 1.64 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.

See independent auditors' report.

PICO WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

December 31, 2013

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 <u>2013</u>	Year <u>2012</u>	Dollar Change	Total Percent Change
Assets:				
Current Assets	\$ 4,703,626	\$ 4,744,352	\$ (40,726)	(0.86) %
Capital Assets	<u>7,887,627</u>	<u>7,454,886</u>	<u>432,741</u>	5.80 %
Total Assets	<u>12,591,253</u>	<u>12,199,238</u>	<u>392,015</u>	3.21 %
Liabilities:				
Current Liabilities	669,182	611,332	57,850	9.46 %
Noncurrent Liabilities	<u>710,725</u>	<u>706,521</u>	<u>4,204</u>	0.60 %
Total Liabilities	<u>1,379,907</u>	<u>1,317,853</u>	<u>62,054</u>	4.71 %
Net Position:				
Net Investment in Capital Assets	7,887,627	7,454,886	432,741	5.80 %
Unrestricted	<u>3,323,719</u>	<u>3,426,499</u>	<u>(102,780)</u>	(3.00) %
Total Net Position	<u>\$11,211,346</u>	<u>\$ 10,881,385</u>	<u>\$ 329,961</u>	3.03 %

As can be seen from Table 1, net position increased by \$329,961 from fiscal year 2012 to 2013. The net position increase of \$329,961 consisted of increases of \$432,741 in invested in capital assets and an decrease of \$102,780 in unrestricted net position.

See independent auditors' report.

PICO WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

December 31, 2013

NET POSITION (CONTINUED)

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

	<u>Year</u> 2013	<u>Year</u> 2012	<u>Dollar</u> <u>Change</u>	<u>Total</u> <u>Percent</u> <u>Change</u>
Revenues:				
Operating Revenues	\$ 3,477,452	\$ 3,321,334	\$ 156,118	4.70 %
Nonoperating Revenues	29,224	33,797	(4,573)	(13.53) %
Capital Contributions	<u>189,938</u>	<u>75,797</u>	<u>114,141</u>	150.59 %
Total Revenues	<u>3,696,614</u>	<u>3,430,928</u>	<u>265,686</u>	7.74 %
Expenses:				
Depreciation Expense	524,752	524,633	119	0.02 %
Other Operating Expenses	2,836,602	2,786,198	50,404	1.81 %
Nonoperating Expenses	<u>5,299</u>	<u>1,647</u>	<u>3,652</u>	221.74 %
Total Expenses	<u>3,366,653</u>	<u>3,312,478</u>	<u>54,175</u>	1.64 %
Changes in Net Position	329,961	118,450	211,511	178.57 %
Beginning Net Position	<u>10,881,385</u>	<u>10,762,935</u>	<u>118,450</u>	1.10 %
Ending Net Position	<u>\$ 11,211,346</u>	<u>\$ 10,881,385</u>	<u>\$ 329,961</u>	3.03 %

A closer examination of the source of changes in net position reveals that the District's total revenues increased by \$265,686 in 2013 primarily due to an increase in water usage and an increase in capital contributions. In addition, operating expenses (exclusive of depreciation) have increased in 2013 by \$50,404.

See independent auditors' report.

PICO WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

December 31, 2013

BUDGETARY HIGHLIGHTS

TABLE 3
2013 Actual vs. 2013 Budget

	Year 2013 <u>Actual</u>	Year 2013 <u>Budget</u>	<u>Variance</u>
Revenues:			
Operating Revenues	\$ 3,477,452	\$ 3,300,400	\$ 177,052
Nonoperating Revenues	29,224	32,500	(3,276)
Capital Contributions	<u>189,938</u>	<u>-</u>	<u>189,938</u>
Total Revenues	<u>3,696,614</u>	<u>3,332,900</u>	<u>363,714</u>
Expenses:			
Operating Expenses:			
Source of supply	907,726	886,700	(21,026)
Pumping	398,841	377,800	(21,041)
Water treatment	50,698	64,400	13,702
Transmission and distribution	185,615	212,700	27,085
Customer accounts	156,077	190,400	34,323
Depreciation	524,752	497,000	(27,752)
General and administrative	1,137,645	1,072,900	(64,745)
Nonoperating expenses	<u>5,299</u>	<u>5,100</u>	<u>(199)</u>
Total Expenses	<u>3,366,653</u>	<u>3,307,000</u>	<u>(59,653)</u>
Changes in Net Position	<u>\$ 329,961</u>	<u>\$ 25,900</u>	<u>\$ 304,061</u>

As Table 3 shows, actual change in net position is \$304,061 higher than the budgeted change in net position. The difference is primarily due to higher than expected expenses off-set with higher than expected revenues. Specifically, Capital Contributions were not anticipated and not included in the original budget.

See independent auditors' report.

PICO WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

December 31, 2013

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At December 31, 2013, the District's investments in a broad range of infrastructure as shown in Table 4 totaled \$7,887,627.

TABLE 4
Capital Assets

	Year 2013	Year 2012	Total Dollar Change	Percentage Change
Land	\$ 21,578	\$ 21,578	\$ -	-
Water rights	216,000	216,000	-	-
Construction in progress	294,640	255,834	38,806	15.17 %
Wells and reservoirs	2,777,028	2,660,382	116,646	4.38 %
Pumps and tanks	658,155	547,182	110,973	20.28 %
Water treatment equipment	45,698	41,738	3,960	9.49 %
Transmission and distribution	10,513,567	9,873,309	640,258	6.48 %
General plant	1,739,265	1,693,395	45,870	2.71 %
Rental house	35,888	35,888	-	-
Total Assets	16,301,819	15,345,306	956,513	6.23 %
Less accumulated depreciation	(8,414,192)	(7,890,420)	(523,772)	6.64 %
Net capital assets	<u>\$ 7,887,627</u>	<u>\$ 7,454,886</u>	<u>\$ 432,741</u>	5.80 %

The major capital asset additions for the year 2013 comprised of reservoir rehabilitation, mobile emergency generator, undercrossing rehabilitation, valves, meters, services, hydrants and vacuum.

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.

See independent auditors' report.

PICO WATER DISTRICT

MANAGEMENT’S DISCUSSION AND ANALYSIS
(CONTINUED)

December 31, 2013

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET AND RATES

The District’s Board of Directors and management considered many factors when setting the 2014 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 2014. The budget has been structured to the highest level of service at the most reasonable cost to our customers.

TABLE 5
Fiscal Year 2013 Actual vs. Fiscal Year 2014 Budget

	Actual Year 2013	Budget Year 2014	Dollar Change	Total Percent Change
Revenues:				
Operating Revenues	\$ 3,477,452	\$ 3,452,200	\$ (25,252)	(0.73) %
Nonoperating Revenues	29,224	32,500	3,276	11.21 %
Capital Contributions	<u>189,938</u>	-	<u>(189,938)</u>	(100.00) %
Total Revenues	<u>3,696,614</u>	<u>3,484,700</u>	<u>(211,914)</u>	(5.73) %
Expenses:				
Depreciation Expense	524,752	497,000	27,752	5.29 %
Other Operating Expenses	2,836,602	2,965,800	(129,198)	(4.55) %
Nonoperating Expenses	<u>5,299</u>	<u>3,100</u>	<u>2,199</u>	41.50 %
Total Expenses	<u>3,366,653</u>	<u>3,465,900</u>	<u>(99,247)</u>	(2.95) %
Changes in Net Position	329,961	18,800	(311,161)	(94.30) %
Beginning Net Position	<u>10,881,385</u>	<u>11,211,346</u>	<u>329,961</u>	3.03 %
Ending Net Position	<u>\$ 11,211,346</u>	<u>\$ 11,230,146</u>	<u>\$ 18,800</u>	0.17 %

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.

See independent auditors’ report.

BASIC FINANCIAL STATEMENTS

PICO WATER DISTRICT
STATEMENT OF NET POSITION

December 31, 2013

ASSETS

CURRENT ASSETS:

Cash and investments	\$	3,943,305
Accounts receivable:		
Billed, net		270,377
Unbilled		182,897
Accrued interest receivable		2,194
Other receivables		61,575
Inventory of material and supplies		194,153
Prepaid expenses		49,125

TOTAL CURRENT ASSETS		4,703,626
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NONCURRENT ASSETS:

CAPITAL ASSETS:

Capital assets, not being depreciated:

Land		21,578
Water rights		216,000
Construction in progress		294,640

Capital assets, being depreciated:

Wells and reservoirs		2,777,028
Pumps and tanks		658,155
Water treatment equipment		45,698
Transmission and distribution		10,513,567
General plant		1,739,265
Rental house		35,888
Less accumulated depreciation		(8,414,192)

CAPITAL ASSETS, NET		7,887,627
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TOTAL ASSETS		12,591,253
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(Continued)

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

PICO WATER DISTRICT

STATEMENT OF NET POSITION
(CONTINUED)

December 31, 2013

LIABILITIES AND NET POSITION

CURRENT LIABILITIES:

Accounts payable	\$ 282,203
Retentions payable	5,841
Accrued expenses	18,579
Compensated absences payable - current	12,868
Refundable deposits	349,691

TOTAL CURRENT LIABILITIES 669,182

LONG-TERM LIABILITIES:

Compensated absences payable	98,262
Other post-employment benefits (OPEB) liability	612,463

TOTAL LONG-TERM LIABILITIES 710,725

TOTAL LIABILITIES 1,379,907

NET POSITION:

Net investment in capital assets	7,887,627
Unrestricted	3,323,719

TOTAL NET POSITION \$ 11,211,346

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, 2013

OPERATING REVENUES:

Water sales	\$ 3,298,470
Water services	167,275
Other income	11,707
TOTAL OPERATING REVENUES	<u>3,477,452</u>

OPERATING EXPENSES:

Source of supply	907,726
Pumping	398,841
Water treatment	50,698
Transmission and distribution	185,615
Customer accounts	156,077
Depreciation	524,752
General and administrative	1,137,645
TOTAL OPERATING EXPENSES	<u>3,361,354</u>

OPERATING INCOME	<u>116,098</u>
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NONOPERATING REVENUES (EXPENSES):

Interest income	10,999
Rental income	18,225
Rental house repairs and maintenance	(5,299)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>23,925</u>

INCOME BEFORE CAPITAL CONTRIBUTIONS	140,023
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CAPITAL CONTRIBUTIONS	<u>189,938</u>
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CHANGE IN NET POSITION	329,961
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NET POSITION - BEGINNING OF YEAR	<u>10,881,385</u>
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NET POSITION - END OF YEAR	<u><u>\$ 11,211,346</u></u>
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See independent auditors' report and notes to basic financial statements.

PICO WATER DISTRICT
STATEMENT OF CASH FLOWS

For the year ended December 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES:

Receipts from consumers	\$ 3,426,661
Payments to suppliers	(2,118,627)
Payments to employees	(757,377)
	<u>550,657</u>

NET CASH PROVIDED BY
OPERATING ACTIVITIES

550,657

CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES:

Acquisition and construction of capital assets	(767,555)
Payments for rental house repairs and maintenance	(5,299)
	<u>(772,854)</u>

NET CASH USED BY CAPITAL AND
RELATED FINANCING ACTIVITIES

(772,854)

CASH FLOWS FROM INVESTING ACTIVITIES:

Net maturity (purchase) of certificates of deposit	(1,956)
Proceeds from rental income	18,225
Investment income	11,357
	<u>27,626</u>

NET CASH PROVIDED BY
INVESTING ACTIVITIES

27,626

NET DECREASE IN CASH
AND CASH EQUIVALENTS

(194,571)

CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR

3,894,761

CASH AND CASH EQUIVALENTS - END OF YEAR

\$ 3,700,190

(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, 2013

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

Operating income	\$	116,098
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation		524,752
Bad debts		2,686
Change in assets and liabilities:		
(Increase) decrease in accounts receivables		(27,803)
(Increase) decrease in other receivables		(36,223)
(Increase) decrease in inventory of materials and supplies		(106,770)
(Increase) decrease in prepaid expenses		15,863
Increase (decrease) in accounts payable		37,567
Increase (decrease) in accrued expenses		4,204
Increase (decrease) in compensated absences		8,344
Increase (decrease) in refundable deposits		13,235
Increase (decrease) in OPEB liability		(1,296)

NET CASH PROVIDED BY
OPERATING ACTIVITIES

\$ 550,657

NONCASH CAPITAL AND RELATED
FINANCING ACTIVITIES:

Contributed capital assets \$ 189,938

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

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PICO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2013

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.

See independent auditors' report.

PICO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

December 31, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

d. GASB Accounting Standards:

Implemented:

The District has implemented GASB 65 and there was no impact.

Pending:

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

- GASB 67 - "*Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25*", effective for the fiscal years beginning after June 15, 2013.
- 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 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*", effective for the periods beginning after June 15, 2013.

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, deferred outflows of resources and reduced by deferred inflows of resources 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, 2013, the District did not have restricted net position.

See independent auditors' report.

PICO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

December 31, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

e. Net Position (Continued):

- 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, 2013, 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, 2013. The reserve at year end was \$18,845.

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. Depreciation is recorded on the straight-line basis over the estimated useful lives.

See independent auditors’ report.

PICO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

December 31, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

i. Capital Assets and Depreciation (Continued):

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.

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.

See independent auditors' report.

PICO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

December 31, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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 a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. 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 a future period(s) 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 of December 31, 2013 are reported in the accompanying statement of net position as follows:

Financial Statement Classification:

Current Assets:

Cash and investments \$ 3,943,305

See independent auditors' report.

PICO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

December 31, 2013

2. CASH AND INVESTMENTS (CONTINUED):

Cash and Investments (Continued):

Cash and investments as December 31, 2013 consisted of the following:

Cash on hand	\$ 700
Deposits with financial institutions	294,579
Investments in Local Agency Investment Fund	<u>3,404,911</u>
Total cash and cash equivalents	3,700,190
FDIC - Insured - Certificate of Deposit	<u>243,115</u>
Total cash and investments	<u>\$ 3,943,305</u>

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

See independent auditors' report.

PICO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

December 31, 2013

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, 2013.

<u>Investment</u>	<u>Remaining Maturity (in Years) Less Than 1 Year</u>
FDIC - Insured - Certificate of Deposit	\$ 243,115
Local Agency Investment Fund	<u>3,404,911</u>
	<u>\$ 3,648,026</u>

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 is not rated.

Concentration of Credit Risk:

The District places no limit on the amount it may invest in any one issuer. At December 31, 2013, the District had no concentration of credit risk.

See independent auditors' report.

PICO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

December 31, 2013

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, 2013, the District's deposits were either insured by the Federal Depository 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.

See independent auditors' report.

PICO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

December 31, 2013

3. CAPITAL ASSETS:

A summary of the changes in capital assets for the year ended December 31, 2013 is as follows:

	Balance December 31, 2012	Additions and Transfers	Dispositions and Transfers	Balance December 31, 2013
Capital assets, not being depreciated:				
Land	\$ 21,578	\$ -	\$ -	\$ 21,578
Water rights	216,000	-	-	216,000
Construction in progress	<u>255,834</u>	<u>762,977</u>	<u>(724,171)</u>	<u>294,640</u>
Total capital assets, not being depreciated	<u>493,412</u>	<u>762,977</u>	<u>(724,171)</u>	<u>532,218</u>
Capital assets, being depreciated:				
Wells and reservoirs	2,660,382	116,646	-	2,777,028
Pumps and tanks	547,182	110,973	-	658,155
Water treatment equipment	41,738	3,960	-	45,698
Transmission and distribution	9,873,309	640,258	-	10,513,567
General plant	1,693,395	46,850	(980)	1,739,265
Rental house	<u>35,888</u>	<u>-</u>	<u>-</u>	<u>35,888</u>
Total capital assets, being depreciated	<u>14,851,894</u>	<u>918,687</u>	<u>(980)</u>	<u>15,769,601</u>
Less accumulated depreciation:				
Wells and reservoirs	(2,087,059)	(107,587)	-	(2,194,646)
Pumps and tanks	(453,078)	(45,968)	-	(499,046)
Water treatment equipment	(41,175)	(1,065)	-	(42,240)
Transmission and distribution	(4,266,956)	(293,958)	-	(4,560,914)
General plant	(1,020,374)	(74,267)	980	(1,093,661)
Rental house	<u>(21,778)</u>	<u>(1,907)</u>	<u>-</u>	<u>(23,685)</u>
Total accumulated depreciation	<u>(7,890,420)</u>	<u>(524,752)</u>	<u>980</u>	<u>(8,414,192)</u>
Total capital assets, being depreciated, net	<u>6,961,474</u>	<u>393,935</u>	<u>-</u>	<u>7,355,409</u>
Total capital assets, net	<u>\$ 7,454,886</u>	<u>\$ 1,156,912</u>	<u>\$ (724,171)</u>	<u>\$ 7,887,627</u>

See independent auditors' report.

PICO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

December 31, 2013

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, 2013, 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 up to \$100,000,000 (total insurable value of \$3,639,543). 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 \$20,000,000 with no deductible. The Insurance Authority has pooled self-insurance up to \$2,000,000 per occurrence and has purchased excess insurance coverage up to \$20,000,000.

Auto Liability - The District is insured up to \$20,000,000 with no deductible. The Insurance Authority has pooled self-insurance up to \$2,000,000 per occurrence and has purchased excess insurance coverage up to \$20,000,000.

Workers' Compensation - Employer's liability is insured up to a \$4,000,000 limit. The Insurance Authority has pooled self-insurance up to \$2,000,000 and has purchased excess insurance coverage up to \$2,000,000.

Public Officials' Liability - The District has coverage for errors and omissions for up to \$20,000,000. The Insurance Authority has pooled self-insurance up to \$2,000,000 per occurrence and has purchased excess insurance coverage up to \$20,000,000.

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 \$5,000,000. The earthquake deductible is 5% of the total insurable values 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.

See independent auditors' report.

PICO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

December 31, 2013

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:

The District contributes all amounts necessary to fund benefits for its employees. The contribution includes an employee portion of 7% of current covered payroll. 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, 2013 to June 30, 2013 and July 1, 2013 to December 31, 2013 were 4.614% and 5.239%, respectively.

Upon the implementation of the California Employees' Pension Reform Act (PEPRA) on January 1, 2013, 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 2013, the first year the plan was effective, 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, 2013, 2012, and 2011 were \$90,180, \$73,262 and \$73,351, respectively. These contributions were equal to the required contributions for each year.

See independent auditors' report.

PICO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

December 31, 2013

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, 2013, 12 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, 2013, the District paid \$52,797 in benefits for its retirees and their covered dependents and made a contribution of \$85,000 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, 2013 was \$131,613 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)	\$ 131,613
Interest adjustment on net OPEB obligation	42,963
Amortization adjustment to ARC	<u>(38,075)</u>
Annual OPEB cost	136,501
Actual contributions made	<u>(137,797)</u>
Decrease in net OPEB obligation	(1,296)
Net OPEB Obligation - beginning of year	<u>613,759</u>
Net OPEB Obligation - end of year	<u>\$ 612,463</u>

See independent auditors' report.

PICO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

December 31, 2013

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, 2013, 2012 and 2011 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Actual Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/11	\$ 213,535	\$ 58,954	27.61 %	\$ 443,089
12/31/12	227,533	56,863	24.99%	613,759
12/31/13	136,501	137,797	100.95%	612,463

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 performed on the plan, therefore only two years of the plan funding progress are shown.

See independent auditors' report.

PICO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

December 31, 2013

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. SUBSEQUENT EVENTS:

All events subsequent to the statement of net position date of December 31, 2013 through June 18, 2014, which is the date these financial statements were available to be issued, have been evaluated by management.

See independent auditors' report.

REQUIRED SUPPLEMENTARY INFORMATION

PICO WATER DISTRICT

SCHEDULE OF FUNDING PROGRESS

For the year ended December 31, 2013

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%

See independent auditors' report.

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SUPPLEMENTAL INFORMATION

PICO WATER DISTRICT

SCHEDULE OF OPERATING REVENUES

For the year ended December 31, 2013

WATER SALES REVENUES:

Residential	\$ 1,900,636
Multi-user	545,074
Business	519,091
Other	<u>333,669</u>

TOTAL WATER SALES REVENUES 3,298,470

WATER SERVICES REVENUES:

Late charges	74,170
Fire protection	45,187
Other	<u>47,918</u>

TOTAL WATER SERVICES REVENUES 167,275

OTHER INCOME 11,707

TOTAL OPERATING REVENUES \$ 3,477,452

See independent auditors' report.

PICO WATER DISTRICT

SCHEDULE OF OPERATING EXPENSES

For the year ended December 31, 2013

SOURCE OF SUPPLY:

Ground water replenishment	\$ 856,585
Salaries and wages	48,311
Recycled water	<u>2,830</u>

TOTAL SOURCE OF SUPPLY	<u>907,726</u>
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PUMPING:

Power	204,024
Maintenance	51,960
Salaries and wages	<u>142,857</u>

TOTAL PUMPING	<u>398,841</u>
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WATER TREATMENT:

Water treatment regulations	30,623
Maintenance	17,615
Salaries and wages	<u>2,460</u>

TOTAL WATER TREATMENT	<u>50,698</u>
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TRANSMISSION AND DISTRIBUTION:

Maintenance	94,457
Salaries and wages	80,399
Vehicle expenses	<u>10,759</u>

TOTAL TRANSMISSION AND DISTRIBUTION	<u>185,615</u>
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CUSTOMER ACCOUNTS:

Supplies	40,240
Salaries and wages	<u>115,837</u>

TOTAL CUSTOMER ACCOUNTS	<u>156,077</u>
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DEPRECIATION	<u>524,752</u>
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See independent auditors' report.

(Continued)

PICO WATER DISTRICT

SCHEDULE OF OPERATING EXPENSES
(CONTINUED)

For the year ended December 31, 2013

GENERAL AND ADMINISTRATIVE:

Directors' fees	\$	36,000
Election costs		33,244
Insurance		261,060
Meetings and dues		23,843
Miscellaneous		54
Office supplies		7,231
OPEB expense		83,704
Payroll taxes		68,732
Pension plan		90,180
Professional services		99,344
Repairs and maintenance		28,915
Salaries and wages		380,061
Telephone and utilities		16,180
Conservation		4,544
Education		4,553

TOTAL GENERAL AND ADMINISTRATIVE 1,137,645

TOTAL OPERATING EXPENSES \$ 3,361,354

See independent auditors' report.