MID-PENINSULA WATER DISTRICT
FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

FOR THE FISCAL YEARS ENDED
JUNE 30, 2016 AND 2015

JAMES MARTA & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS

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MID-PENINSULA WATER DISTRICT

BOARD OF DIRECTORS

JUNE 30, 2016

Name	Office	Term Expires December
Matthew Zucca	President	2019
Dave Warden	Vice President	2017
Albert Stuebing	Director	2017
Betty Linvill	Director	2017
Louis Vella	Director	2019

ADMINISTRATION

Tammy Rudock
General Manager

MID-PENINSULA WATER DISTRICT

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James Marta & Company LLP
Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Mid-Peninsula Water District
Belmont, California

Report on the Financial Statements

We have audited the accompanying Statement of Net Position of Mid-Peninsula Water District (the District) as of June 30, 2016 and 2015 and the related Statements of Revenues, Expenses and Changes in Net Position and Cash Flows for the years then ended and the related notes to the financial statement.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the basic 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the basic financial statements.

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Mid-Peninsula Water District as of June 30, 2016 and 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and Schedule of Funding Progress – Other Postemployment Benefits, Schedule of the District's Proportionate Share of the Net Pension Liability and Schedule of Pension Contributions 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 (GASB) 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 principally of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Change in Accounting Principle

Mid-Peninsula Water District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,* in fiscal year 2014-15, which required a restatement of net position as of July 1, 2014. The effects of this restatement are described in Note 10 to the basic financial statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2016 on our consideration of Mid-Peninsula Water District's internal control over financial reporting and our tests of its compliance with provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mid-Peninsula Water District's internal control over financial reporting and compliance.

James Marta & Company LLP

James Marta & Company LLP
Certified Public Accountants
Sacramento, California
November 10, 2016

MANAGEMENT’S DISCUSSION AND ANALYSIS

MID-PENINSULA WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALSYS

JUNE 30, 2016

This section of the Mid-Peninsula Water District's ("District") annual financial report presents a discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2016. It should be reviewed in conjunction with the District's basic financial statements for the fiscal year ended June 30, 2106.

FINANCIAL HIGHLIGHTS

- The District's Net Position increased by $904,407 (5%) during the fiscal year ended June 30, 2106.
- The District's operating revenues increased from the previous year by $789,980 (8%).
- Non-operating revenues decreased from the previous year by $130,280 (-22%).
- Operating expenses increased by $374,693 (4%).

The "Changes in Net Position" portion of the report details the various factors behind the highlights.

USING THIS ANNUAL REPORT

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

Required Financial Statements

District financial statements report financial information about the District using accounting methods similar to those used by private sector companies, which include Generally Accepted Accounting Principles (GAAP). The Statement of Net Position included all District assets and liabilities, and provides information about the nature and amounts of investments in resources (assets) and 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 fiscal 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.

The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the District cash receipts, cash disbursements and net changes in cash resulting from operating, investing, and capital and noncapital financing activities.

FINANCIAL ANALYSIS OF THE DISTRICT

One of the most important questions asked about the District finances is whether or not the District's overall financial position has improved or deteriorated. The Statement of Net Position and the Statement of Revenues and Expenses and Changes in Net Position report information about the District activities in a way that responds to this question. The statement of the District's net position (the difference between assets and liabilities), is one measure of financial health or financial position. Over time, increases or decreases in District net position are one indicator of whether its financial health is improving or deteriorating. Other factors to consider include changes in economic conditions, population growth, and new or changed legislation.

Statement of Net Position

	June 30, 2016	June 30, 2015	Amount Increase (Decrease)	Percent Increase (Decrease)	June 30, 2014
Current and Other Assets	$ 5,495,630	$ 4,575,012	$ 920,618	20%	$ 5,617,101
Capital Assets, Net	16,801,357	16,348,917	452,440	3%	15,269,243
Total Assets	22,296,987	20,923,929	1,373,058	7%	20,886,344
Deferred Outflows	442,276	203,461	238,815	117%	-
Current and Other Liabilities	918,226	263,696	654,530	248%	476,804
Long-Term Liabilities	1,476,886	1,400,680	76,206	5%	252,043
Total Liabilities	2,395,112	1,664,376	730,736	44%	728,847
Deferred Inflows	195,448	218,718	(23,270)	-11%	-
Invested in Capital Assets, Net	16,801,357	16,348,917	452,440	3%	15,269,243
Unrestricted Net Position	3,347,346	2,895,379	451,967	16%	4,888,254
Total Net Position	$ 20,148,703	$ 19,244,296	$ 904,407	5%	$ 20,157,497

The District's net position at fiscal year end June 30, 2016 increased $904,407 (5%) when compared to fiscal year end June 30, 2015. Factors contributing to this increase are due to an increase in the Meter Change-Out Program $566,460; purchase of four (4) new Operations service vehicles $107,985; Office equipment (copier) $21,289; Computer and SCADA System replacement $91,883; Pumps & Valves repairs and maintenance $65,811; and various Construction in progress jobs $557,268; Vacation and Sick time accruals increased by $42,996; and Customer Deposits increased by $359,162 due to new development. Depreciation Expense for the year was $910,362 which reduced capital assets.

Changes in Net Position

Changes in the District's net position between fiscal year end June 30, 2016, and fiscal year end June 30, 2015, can be determined by reviewing the following condensed Statement of Revenue, Expenses, and Changes in Net Position.

Condensed Statement of Revenues, Expenses, and Changes in Net Position

	June 30, 2016	June 30, 2015	Amount Increase (Decrease)	Percent Increase (Decrease)	June 30, 2014
Operating Revenue	$ 10,130,083	$ 9,340,103	$ 789,980	8%	$ 9,814,351
Non-Operating Revenue	451,951	582,231	(130,280)	-22%	590,516
Total Revenues	10,582,034	9,922,334	659,700	7%	10,404,867
Operating Expenses	9,677,627	9,302,934	374,693	4%	8,993,013
Non-Operating Expenses	-	-	-	0%	-
Total Expenses	9,677,627	9,302,934	374,693	4%	8,993,013
Change in Net Position	904,407	619,400	285,007	46%	1,411,854
Net Position, Beginning - Original	19,244,296	20,157,497	(913,201)	-5%	18,745,643
Change in Accounting Principle	-	(1,532,601)	1,532,601	0%	-
Net Position, Beginning - Restated	19,244,296	18,624,896	619,400	3%	18,745,643
Net Position, Ending	$ 20,148,703	$ 19,244,296	$ 904,407	5%	$ 20,157,497

The District's Operating Revenues increased by $789,980 (8%) due to various factors. Water revenues increased by $230,492 (3%) and Fixed System Charges increased by $386,455 (18.7%) primarily as a result of rate increases due to wholesale purchased water rate increases from the San Francisco Public Utilities Commission (SFPUC). MPWD development fees, which included Service Line & Installation Charges $113,439 (100%), Water System Capacity Charges $90,625 (100%), and Water Demand Offset Charges $13,793 (100%) previously reported in the Miscellaneous Income category in past years.

The District's Non-Operating Revenues decreased by $130,280 (-22%) due to the change in reporting of the fees discussed in the prior paragraph.

Operating Expenses increased by $374,693 (4%) due to various factors:

- Salaries and benefits increased by $34,442 (1.5%) primarily due to the hiring of the Operations Manager as follows: Salaries & Wages increased by $111,765 (8.2%); Health Benefits increased by $24,996 (5.2%); Uniform costs increased by $9,944 (59.4%); OPEB Expense increased by $100,296 (100%) and Net Pension Expense decreased by $213,196 (-148.18%) due to second year reporting requirements (GASB 68).
- Maintenance and rehabilitation (M&R) expenditures decreased by $1,569 (-0.3%)
- Purchased Water increased by $330,346 (7.9%) as the result of a combination of the SFPUC's increased wholesale customer water rates and the District's reduced water purchases and water use reduction from water conservation achievements.

- Utilities decreased by $45,305 (-14.5%) due to cost savings realized as a result of operating the pump stations during non-peak hours.
- Professional Services increased by $77,694 (16.8%) primarily due to the 2015 Urban Water Management Plan and new Water Shortage Contingency Plan required by the state $65,191 (100%); and Customer Billing increased by $12,496 (20.8%) due to conservation messaging.
- Administrative and other costs decreased by $18,297 (-2.8%) primarily due to a decrease in Liability Insurance costs by $32,976 (-33.5%) and increase in Customer Credit Card Service Fees by $12,377 (11.9%).
- Depreciation decreased by $2,618 (-0.3%) due to assets fully depreciated during the year.

BUDGETARY HIGHLIGHTS

In its commitment to fiscal responsibility, the District timely adopted an annual budget for Fiscal Year 2015/2016 that projected revenues and expenditures for operations and capital improvements.

CAPITAL ASSETS

At June 30, 2016, the District had $16,801,357 (net of accumulated depreciation) invested in capital assets. The following table is presented below to illustrate changes from the prior year:

	June 30, 2015	June 30, 2015	Amount Increase (Decrease)	Percent Increase (Decrease)	June 30, 2014
Land	$ 1,045,264	$ 1,045,264	$ -	0%	$ 1,045,264
Construction in Progress	557,268	74,588	482,680	647%	1,212,700
Utility Plant in Service	39,021,042	38,313,237	707,805	2%	36,710,048
Vehicles	1,685,412	1,577,427	107,985	7%	347,014
Computer System	256,462	192,131	64,331	33%	183,105
Capital Asset at Cost	42,565,448	41,202,647	1,362,801	3%	39,498,131
Less Accumulated Depreciation	(25,764,091)	(24,853,730)	910,361	4%	(24,228,888)
Capital Assets, Net	$ 16,801,357	$ 16,348,917	$ 452,440	3%	$ 15,269,243

RATES AND OTHER ECONOMIC FACTORS

The District is governed in part by provisions that require rate-based revenues must cover the costs of Operations, Maintenance and Repairs (OM&R) and capital improvement projects. The District is not subject to general economic conditions such as increases or reductions in property tax values or other types of revenues, such as sales taxes, that vary with economic conditions. Accordingly, the District sets its rates to its users to cover the costs of OM&R, capital improvement projects, plus any increments for known or anticipated changes in program costs.

REQUESTS FOR FINANCIAL INFORMATION

This financial report is designed to provide our customers and creditors with a general overview of District finances, and demonstrate District fiscal accountability for the money it receives. If you have any questions about this report, or need additional financial information, please contact:

Tammy Rudock, General Manager
Mid-Peninsula Water District
3 Dairy Lane
Belmont, CA 94002
(650) 591-8941

BASIC FINANCIAL STATEMENTS

MID-PENINSULA WATER DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2016 AND 2015

	2016	2015
ASSETS		
Current Assets		
Cash and cash equivalents (Note 2)	$ 4,265,885	$ 3,582,734
Accounts receivables	973,931	679,566
Materials and supplies	-	177,209
Prepaid expenses and other assets	255,814	135,503
Total Current Assets	5,495,630	4,575,012
Capital assets, net (Note 3)	16,801,357	16,348,917
TOTAL ASSETS	22,296,987	20,923,929
Deferred Outflows of Resources:		
Pension related(Note 4)	442,276	203,461
LIABILITIES		
Current Liabilities		
Accounts payable	206,936	185,507
Accrued expenses	493,293	46,879
Unearned revenue	217,997	31,310
Total Current Liabilities	918,226	263,696
Long-Term Liabilities		
Net pension liability (Note 4)	1,113,540	1,118,234
Net OPEB Liability (Note 6)	42,469	4,565
Compensated absences	320,877	277,881
TOTAL LIABILITIES	2,395,112	1,664,376
Deferred Inflows or Resources:		
Pension related (Note 4)	195,448	218,718
NET POSITION		
Invested in capital assets	16,801,357	16,348,917
Unrestricted	3,347,346	2,895,379
TOTAL NET POSITION	$ 20,148,703	$ 19,244,296

The accompanying notes are an integral part of these financial statements.

MID-PENINSULA WATER DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
OPERATING REVENUES		
Water service charges	$ 10,103,976	$ 9,269,172
Other revenue	26,107	70,931
Total Operating Revenues	10,130,083	9,340,103
OPERATING EXPENSES		
Salaries and benefits	2,293,425	2,258,983
Maintenance and rehabilitation	528,314	529,883
Purchased water	4,491,156	4,160,810
Utilities	267,479	312,784
Professional services	539,376	461,682
Administrative and other	647,516	665,813
Depreciation	910,361	912,979
Total Operating Expenses	9,677,627	9,302,934
OPERATING INCOME (LOSS)	452,456	37,169
NON-OPERATING REVENUES (EXPENSES)		
Rent	170,763	194,681
Property taxes	266,341	259,597
Interest income	14,847	9,751
Completed projects	-	118,202
Total Non-Operating Revenues (Expenses)	451,951	582,231
CHANGE IN NET POSITION	904,407	619,400
NET POSITION, BEGINNING OF YEAR		
As originally reported	19,244,296	20,157,497
Prior period adjustment	-	(1,532,601)
NET POSITION, BEGINNING OF YEAR, As restated	19,244,296	18,624,896
NET POSITION, END OF YEAR	$ 20,148,703	$ 19,244,296

The accompanying notes are an integral part of these financial statements.

MID-PENINSULA WATER DISTRICT

STATEMENT OF CASH FLOWS

FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
Cash Flows From Operating Activities		
Reciepts from customers and users	$ 9,996,298	$ 9,470,575
Other operating revenue	26,107	70,931
Payments to suppliers	(5,949,100)	(6,405,383)
Payments related to employees	(2,479,304)	(2,268,825)
Net Cash Flows Provided (Used) by Operating Activities	1,594,001	867,298
Cash Flows From Non-Capital Financing Activities		
Rent received	170,763	194,681
Property taxes received	266,341	259,597
Net Cash Flows Provided (Used) by Non-Capital Financing Activities	437,104	454,278
Cash Flows From Capital and Related Financing Activities		
Acquisition of capital assets	(1,362,801)	(2,332,175)
Cash received for completed projects	-	118,202
Net Cash Flows Provided (Used) by Capital & Related Activities	(1,362,801)	(2,213,973)
Cash Flows From Investing Activities		
Interest Income	14,847	9,751
Net Cash Flows Provided (Used) by Investing Activities	14,847	9,751
Net Increase (Decrease) in Cash	683,151	(882,646)
Beginning Cash and Equivalents	3,582,734	4,465,380
Ending Cash and Equivalents	$ 4,265,885	$ 3,582,734

The accompanying notes are an integral part of these financial statements.

MID-PENINSULA WATER DISTRICT

STATEMENT OF CASH FLOWS

FOR THE FISCAL YEARS ENDED
JUNE 30, 2016 AND 2015

	2016	2015
Reconciliation of Operating Income (loss) to Net Cash Provided (used) by Operating Activities		
Cash Flows from Operating Activities:		
Operating Income (Loss)	$ 452,456	$ 37,169
Adjustments to Reconcile Operating Income (loss) to Net Cash Provided (used) by Operations:		
Depreciation	910,361	912,979
(Increase) Decrease in:		
Accounts receivable	(294,365)	170,093
Materials and supplies	177,209	12,885
Prepaid expenses and other assets	(120,311)	(42,878)
Net OPEB asset	-	19,343
Deferred outflows	(238,815)	(203,461)
Increase (Decrease) in:		
Accounts payable	21,429	(236,866)
Accrued benefits	42,996	25,838
Net OPEB liability	37,904	4,565
Unearned revenue	186,687	31,310
Customer deposits	446,414	(7,552)
Net pension liability	(4,694)	(74,845)
Deferred inflows	(23,270)	218,718
Net Cash Provided (used) by Operating Activities	$ 1,594,001	$ 867,298

The accompanying notes are an integral part of these financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

Mid-Peninsula Water District (the District) is a separate political subdivision of the State of California. The District was established on July 2, 1929 as the Belmont County Water District and changed its name effective July 1, 2000. The District maintains and operates a system of storage tanks and water mains. It purchases water from the San Francisco Public Utilities Commission for distribution to its customers through this system.

B. BASIS OF ACCOUNTING

The District is accounted for as an enterprise fund and its financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cash flows.

Operating revenues and expenses generally result from providing services in connection with the District's principal ongoing operations. The principal operating revenues of the District include water service charges. Operating expenses of the District include employee costs, water purchases, maintenance, utilities, and other administrative costs. All revenues and expenses not meeting this definition are reported as non-operating revenue and expense.

C. CASH AND CASH EQUIVALENTS

The District considers cash on hand, cash in banks and the Local Agency Investment Fund to be cash and cash equivalents.

D. ACCOUNTS RECEIVABLE

The District extends credit to customers in the normal course of operations. The District has not experienced any significant bad debt losses, however a small provision has been made for doubtful accounts and accounts receivable are shown net of the allowance for doubtful accounts.

E. MATERIALS AND SUPPLIES

Materials and supplies are stated at average cost. Inventories consist primarily of parts and supplies used to maintain the distribution system including mains, metering equipment and hydrants used for fire suppression within the District.

F. UNEARNED REVENUE

Contractors developing projects, which include construction of facilities to bring water from District mains into the project, deposit a construction advance with the District for an amount estimated to cover the District's costs related to the project. The District accounts for expenditures as construction in progress until the completion of the project, the final inspection and approval of the District, and then it is capitalized as part of capital assets. Revenues are recognized as the project progresses. At the completion of the project, any excess funds are returned to the contractor.

G. COMPENSATED ABSENCES

The District has a paid time off (PTO) policy in effect. It is the District's policy to permit employees to accumulate earned by unused vacation, sick leave and compensated time off. The District pays all earned PTO upon termination. All accumulated PTO is recorded as an expense and a liability at the time the benefit is earned.

H. CAPITAL ASSETS

Capital assets are recorded at cost, or if contributed, at estimated value at time of acquisition. Depreciation is recognized on buildings, furniture, fixtures, equipment and subsurface lines by the straight-line method over their estimated useful lives. Estimated useful lives are as follows:

Utility plant	10 - 50 years
Vehicles	5 years
Machinery and equipment	7 years
Computer system	5 years

District policy is to capitalize all assets, which cost $5,000 or more, and to charge to current operations all additions under that cost limit. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend lives are also expensed in the current period.

I. REVENUES

Customer water meters are read on a monthly basis. Bills are rendered and income is recognized in the period in which meters are read. The District does not accrue income for water distributed but not yet billed at the end of the year. California state law requires water districts to report capacity charges collected and spent separately from operating revenue and expense and any fees unspent at year-end are shown in a separate equity fund. No capacity charges have been collected by the District.

J. PROPERTY TAXES

The District's property taxes are levied each calendar year on all taxable real property located in the District. Property taxes are recorded on an accrual basis of accounting. The County Assessor is responsible for assessment of all taxable real property within San Mateo County. Reassessment is on a three-year schedule established by the Assessor. The County Clerk computes the annual tax for each parcel of real property and prepares tax books used by the County Collector as the basis for issuing tax bills to all taxpayers in the County. Property taxes are collected by the County Collector and are submitted to the County Treasurer, who remits to each unit its respective share of the collections. Taxes levied in one year become due and payable in two installments during the following year generally on March 1st and August 30th. The first installment is an estimated bill, and is approximately one-half of the prior year's tax bill. The second installment is based on the current levy, assessment, equalization, and certificate to limit levy, if any and any changes from the prior year will be reflected in the second installment bill. Taxes must be levied by the last Tuesday in December for the following collection year. The levy becomes an enforceable lien against the property as of January 1st of the levy year.

K. INCOME TAXES

The District is a governmental entity and as such its income is exempt from taxation under Section 115(1) of the Internal Revenue Code and Section 23701d of the California and Taxation Code. Accordingly, no provision for federal or state income taxes has been made in the accompanying financial statements.

L. PENSIONS

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Mid-Peninsula Water District's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

M. DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES

In addition to assets, the statement of net position includes 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 as such will not be recognized as an outflow of resources (expense/expenditures) until then.

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 as such, will not be recognized as an inflow of resources (revenue) until that time.

N. USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

2. CASH AND INVESTMENTS

Cash and cash equivalents as of June 30, 2016 and 2015 consisted of the following:

	2016	2015
Petty cash	$ 400	$ 400
Cash drawer	200	200
Cash in bank	211,307	193,003
Local Agency Investment Fund	4,053,978	3,389,131
Total Cash and Cash Equivalents	$ 4,265,885	$ 3,582,734

The carrying amount of the District's cash is covered by federal depository insurance up to $250,000. Should deposits exceed the insured limits, the balance is covered by collateral held by the bank in accordance with California law requiring the depository bank to hold collateral equal to 110% of the excess government funds on deposit.

Local Agency Investment Fund

The District is a voluntary participant in Local Agency Investment Fund (LAIF), which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California and the Pooled Money Investment Board. The State Treasurer's Office pools these funds with those of other governmental agencies in the State and invests the cash. The fair value of the District's investment in this pool, which approximates cost, is reported in the accompanying financial statements 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. Funds are accessible and transferable to the master account with twenty-four hour notice. The Pooled Money Investment Board has established policies, goals, and objectives to make certain that their goal of safety, liquidity, and yield are not jeopardized. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset backed securities, and floating rate securities issued by Federal Agencies, government-sponsored enterprises and corporations. The monies held in the LAIF are not subject to categorization by risk category. It is also not rated as to credit risk by a nationally recognized statistical rating organization. LAIF is administered by the State Treasurer and audited annually by the Pooled Money Investment Board and the State Controller's Office. Copies of this audit may be obtained from the State Treasurer's Office: 915 Capitol Mall, Sacramento, California 95814.

2. CASH AND INVESTMENTS (Continued)

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 monies held in the LAIF investment pool are not subject to categorization by risk category. It is also not rated as to credit risk by a nationally recognized statistical rating organization.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

3. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 is as follows:

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016
Capital assets not subject to depreciation				
Land	$ 1,045,264	$ -	$ -	$ 1,045,264
Construction in progress	74,588	526,381	43,701	557,268
Total capital assets not subject to depreciation	1,119,852	526,381	43,701	1,602,532
Capital assets being depreciated				
Utility plant in service	38,313,237	707,805		39,021,042
Vehicles	1,577,427	107,985	-	1,685,412
Computer and telephone systems	192,131	64,331	-	256,462
Total capital assets being depreciated	40,082,795	880,121	-	40,962,916
Less accumulated depreciation for:				
Utility plant in service	(23,320,257)	(817,183)		(24,137,440)
Vehicles	(1,432,356)	(54,484)	-	(1,486,840)
Computer and telephone systems	(101,117)	(38,694)	-	(139,811)
Total accumulated depreciation	(24,853,730)	(910,361)	-	(25,764,091)
Total capital assets, net of depreciation	$ 16,348,917	$ 496,141	$ 43,701	$ 16,801,357

Depreciation for the year's ended June 30, 2016 and 2015 was $910,361 and $912,979, respectively.

4. EMPLOYEE RETIREMENT PLAN

A. Plan Description

All qualified permanent and probationary employees are eligible to participate in the Mid-Peninsula Water District's cost-sharing multiple employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan is established by State statute and Mid-Peninsula Water District resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for the plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at June 30, 2016, are summarized as follows:

Hire Date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.7% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 55	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.7%	1.0% to 2.5%
Required employee contribution rates	7.000%	6.250%
Required employer contribution rates	8.377%	6.555%

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Mid-Peninsula Water District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the years ended June 30, 2016 and 2015, the contributions recognized as part of pension expense for the Plan were $210,583 and $203,461, respectively.

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

As of June 30, 2016 and 2015, the Mid-Peninsula Water District reported net pension liabilities for its proportionate share of the net pension liability of $1,113,540 and $1,118,234, respectively.

Mid-Peninsula Water District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2016, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. Mid-Peninsula Water District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for the Plan as of June 30, 2015 and 2014 was as follows:

Proportion - June 30, 2015	0.04059%
Proportion - June 30, 2014	0.04525%
Change - Increase (Decrease)	-0.00466%

For the year ended June 30, 2016 and 2015, the District recognized pension expense of $148,610 and $143,873, respectively. The District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

June 30, 2016

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 210,583	
Difference between projected and actual experience	13,760	
Difference in actual vs. projected contributions	111,047	
Change in proportion	106,886	
Changes in assumptions		$ (130,185)
Net differences between projected and actual earnings on plan investments		(65,263)
Total	$ 442,276	$ (195,448)

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

$210,583 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Measurement Period Ended June 30	
2016	$ 11,967
2017	$ 7,482
2018	$ (15,902)
2019	$ 32,698

June 30, 2015

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 203,461	
Difference between proportionate share of aggregate employer contributions and actual contributions for 2013-14.		$ 62,799
Change in employer's proportion and differences between proportionate share of contributions		(23,453)
Net differences between projected and actual earnings on plan investments		(258,064)
Total	$ 203,461	$ (218,718)

$203,461 reported as deferred outflows of resources related to contributions subsequent to the measurement date are recognized as a reduction of the net pension liability in the current year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Measurement Period Ended June 30	
2015	$ (50,464)
2016	$ (50,464)
2017	$ (53,274)
2018	$ (64,516)

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

Actuarial Assumptions – The total pension liabilities in the June 30, 2014 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost
Actuarial Assumptions	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth Rate	3.00%
Projected Salary Increase	Varies by Entry Age and Service
Investment Rate of Return (1)	7.50%
Mortality	Derived using CalERS' Membership Data for all Funds

(1) Net of pension plan investment expenses, including inflation

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2014 valuation were based on the CalPERS Experience Study for the period from 1997 to 2007. Further details of the Experience Study can be found on the CalPERS website.

Discount Rate – The discount rate used to measure the total pension liability was 7.65% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained from the CalPERS website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	Current Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	51.0%	5.25%	5.71%
Global Debt Securities	19.0%	0.99%	2.43%
Inflation Assets	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%

(a) An expected inflation of 2.5% used for this period
(b) An expected inflation of 3.0% used for this period

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the District's proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Discount Rate - 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)
Plan's Net Pension Liability	$ 1,867,484	$ 1,113,540	$ 491,071

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

Pension Plan Fiduciary Net Position – Detailed information about each pension plan’s fiduciary net position is available in the separately issued CalPERS financial reports.

C. Payable to the Pension Plan

The District had no outstanding amount of contributions to the pension plan required for the year ended June 30, 2016.

5. DEFERRED COMPENSATION PLAN

The District has established a deferred compensation plan in accordance with Internal Revenue Code Section 457, whereby employees may elect to defer portions of their compensation in a self-directed investment plan for retirement. Plan assets are invested in each individual's name with a deferred compensation plan provider. Distributions are made upon the participant's termination, retirement, death or total disability, and in a manner in accordance with the election made by the participant. All employees are eligible for plan participation. The District offers two plans, one with Lincoln Life and the other with ICMA-RC.

The District believes it has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The District has formally established a trust in accordance with Internal Revenue Code Section 457(g) to provide protection from the claims of the employer's general creditors. Accordingly deferred compensation assets placed in the trust are not reflected in these financial statements.

6. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

A. Plan Description

The District provides postemployment health care benefits for all employees who terminate or retire from the District after achieving age 55 with at least 20 years of service. For employees hired before June 28, 2008, District-paid benefits are available to eligible beneficiaries. The General Manager position qualifies for postemployment healthcare benefits after 7 ½ years of service with the District per the employment agreement.

B. Funding Policy

The District has an agreement with the Public Agency Retirement Services (PARS) to be the Trust Administrator to the PARS Public Agencies Post-Retirement Health Care Pan Trust. The amount to be contributed to the trust is determined annually by the board of directors.

C. Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) expense is calculated based on the annual required contributions (ARC), an amount actuarially 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 the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the District's Annual OPEB Cost for the fiscal year ended June 30, 2016, the amount actually contributed to the plan, and changes in the District's Net OPEB Obligation (Asset):

Annual required contribution	$ 259,428
Interest on net OPEB obligation	251
Adjustment to annual required contribution	(314)
Annual OPEB cost (expense)	259,365
Contributions made	(221,461)
Change in net OPEB obligation (asset)	37,904
Net OPEB obligation (asset) - beginning of year	4,565
Net OPEB obligation (asset) - end of year	$ 42,469

C. Annual OPEB Cost and Net OPEB Obligation (Continued)

The District's Annual OPEB Cost, the percentage of Annual OPEB Cost contributed to the plan, and the Net OPEB Obligation (Asset) are as follows:

Fiscal Year Ended	Annual OPEB Cost	Actual Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
June 30, 2016	$ 259,365	$ 221,461	85%	$ 42,469
June 30, 2015	$ 155,528	$ 131,620	85%	$ 4,565
June 30, 2014	$ 151,033	$ 147,344	98%	$ (19,343)

D. Funding Status and Funding Progress

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 future employment, 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 the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

E. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and 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 plan members to that point. The methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The plan's most recent actuarial valuation was performed as of July 1, 2015. In that valuation, the Projected Unit Credit Cost Method was used. The actuarial assumptions included a 5.5% discount rate, and a medical trend assumption of 8.0% graded down by 1.0% per year to an ultimate rate of 5.0% after 3 years. These assumptions reflect an implicit 3.0 percent general inflation assumption. The District's unfunded actuarial accrued liability is being amortized as a level dollar amount on an open basis over 30 years.

7. JOINTLY GOVERNED ORGANIZATIONS

The District is a member of two jointly governed organizations. The District is a member of the Association of California Water Agencies Joint Powers Insurance Authority (ACWA JPIA) which provides employee benefits coverage for medical, dental, vision, life and disability. The District is also a member of Bay Area Water Supply & Conservation Agency (BAWSCA) which purchases water on a wholesale basis from the San Francisco regional water system for its members.

ACWA JPIA and BAWSCA are governed by a Board consisting of representatives from member agencies. The Board controls the operations, including selection of management and approval of operating budgets, independent of any influence by the member agencies beyond their representation on the Board. Each member agency pays a contribution or assessment commensurate with the level of coverage and services requested and shares surpluses and deficits proportionate to their participation in the joint powers authority. Full financial statements are available separately from ACWA JPIA and BAWSCA. Condensed information for ACWA JPIA and BAWSCA for the years ended September 30, 2015 and June 30, 2015, respectively, is as follows:

	ACWA JPIA September 30, 2015		BAWSCA June 30, 2015	
Total Assets	$	194,775,717	$	375,097,424
Total Deferred Outflows	$	625,033	$	93,829
Total Liabilities	$	113,620,777	$	364,471,351
Total Deferred Inflows	$	846,155	$	110,720
Total Net Position	$	80,933,818	$	10,609,182
Total Revenues	$	160,400,697	$	30,668,976
Total Expenses	$	164,195,428	$	29,562,005
Change in Net Position	$	(3,794,731)	$	1,106,971

8. COMMITMENTS

Purchase commitment

The District entered into an agreement with the City and County of San Francisco to purchase water to be delivered to the District's customers. This is a 25 year agreement that was effective July 1, 2009 and ends on June 30, 2034. The cost of purchasing water through this agreement represented approximately 45% and 44% of the District's operating costs for the years ended June 30, 2016 and 2015, respectively.

Operating lease

The District leased a copier under a 63 month term which expired in September 2015. Total lease payments for the years ended June 30, 2016 and 2015 were $12,108 and $53,957, respectively. The District purchased a new copier in July 2015 and did not renew the lease.

9. LEASE REVENUES

The District contracted with five different companies to lease land for communication towers on those properties and had one lease for an office building. The building lease was cancelled in December 2015. The remaining agreements are for multiple years and require monthly payments based on the contracted amounts. Lease revenues for the years ended June 30, 2016 and 2015 totaled $170,763 and $194,681, respectively. A schedule of future lease revenues was not available as of the date of these financial statements.

10. PRIOR PERIOD RESTATEMENT

The District understated the accumulated depreciation on certain assets in years prior to June 30, 2015. As a result we had to increase the beginning balance at July 1, 2014 for accumulated depreciation and decrease the beginning net position by $339,522.

In addition, the District implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* for the year ended June 30, 2015. This statement established standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources and expenses related to the District's defined benefit pension plan described in Note 4. This change in accounting principle required a prior period adjustment in fiscal year 2014-15, which decreased the beginning net position by $1,193,079.

11. SUBSEQUENT EVENTS

District management has evaluated its June 30, 2016 financial statements for subsequent events through November 10, 2016, the date the financial statements were available to be issued. Management is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

MID-PENINSULA WATER DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS
OTHER POSTEMPLOYMENT BENEFITS

JUNE 30, 2016

Actuarial Valuation Date	Actuarial Accrued Liability (AAL) Entry Age (a)	Actuarial Value of Assets (b)	Unfunded Liability (UAAL) (a-b)	Funded Status (b/a)	Annual Covered Payroll (c)	UAAL as a % of payroll ([a-b]/c)
July 1, 2009	$ 1,046,600	$ -	$ 1,046,600	0%	$ 1,190,000	87.9%
July 1, 2012	$ 1,517,700	$ 257,000	$ 1,260,700	17%	$ 1,242,300	101.5%
July 1, 2015	$ 2,452,610	$ 432,917	$ 2,019,693	18%	$ 1,457,920	138.5%

MID-PENINSULA WATER DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

JUNE 30, 2016

	June 30, 2015 [1]	June 30, 2016
Proportion of the net pension liability	0.01797%	0.01797%
Proportionate share of the net pension liability	$ 1,118,234	$ 1,113,540
Covered-employee payroll (2)	$ 1,178,386	$ 1,457,920
Proportionate share of the net pension liability as percentage of covered-employee payroll	94.90%	76.38%
Plans fiduciary net position as a percentage of the total pension liability	77.06%	79.89%
Proportionate share of aggregate employer contributions (3)	$ 101,596	$ 107,544

(1) Historical information is required only for measurement periods for which GASB 68 is applicable.

(2) Covered-employee payroll represented above is based on pensionable earnings provided by the employer.

(3) The plan's proportionate share of aggregate contributions may not match the actual contribtions made by the employer during the measurement period. The plan's proportionate share of aggregate contributions is based on the plan's proportion of fiduciary net position shown on line 5 of the table above as well as any additional side fund (or unfunded liability) contributions made by the employer during the measurement period.

MID-PENINSULA WATER DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF PENSION CONTRIBUTIONS

JUNE 30, 2016

	Fiscal Year [1]			
	2013-14		**2014-15**	
Actuarially Determined Contribution (2)	$	186,823	$	203,461
Contributions in relation to the actuarially determined contributions		(186,823)		(203,461)
Contribution deficiencey (excess)	$	-	$	-
Covered-employee payroll (3,4)	$	1,178,386	$	1,457,920
Contributions as a percentage of covered-employee payroll (3)		15.85%		13.96%

(1) Historical information is required only for measurement periods for which GASB 68 is applicable.

(2) Employers are assumed to make contributions equal to the actuarially determined contributions (which is the actuarially determined contribution). However, some employers may choose to make additional contributions towards their side fund or their unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions. CalPERS has determined that employer obligations referred to as "side funds" do not conform to the circumstances described in paragraph 120 of GASB 68, therefore are not considered separately financed specific liabilities.

(3) Covered-employee payroll represented above is based on pensionable earnings provided by the employer.

(4) Payroll from prior year was assumed to increase by the 3.00 percent payroll growth assumption.

OTHER INDEPENDENT AUDITOR'S REPORT

James Marta & Company LLP
Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

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

Independent Auditor's Report

Board of Directors
Mid-Peninsula Water District
Belmont, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Mid-Peninsula Water District (the "District"), as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 10, 2016.

Internal Control Over Financial Reporting

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

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

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

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Compliance and Other Matters

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

We noted certain matters that we reported to management of the District in a separate letter dated November 10, 2016.

Purpose of this Report

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

James Marta + Company LLP

James Marta & Company LLP
Certified Public Accountants
Sacramento, California
November 10, 2016