Purissima Hills Water District

Annual Financial Report

For the Fiscal Years Ended June 30, 2016 and 2015

Service to the Hills Since 1955

Purissima Hills Water District

Board of Directors as of June 30, 2016

Name	Title	Elected/ Appointed	Current Term
Robert N. Anderson	President	Elected	12/14-12/18
Brian Holtz	Vice President	Elected	12/12-12/16
Peter Evans	Director	Elected	12/14-12/18
Stephen A. Jordan	Director	Elected	12/12-12/16
Ernest Solomon	Director	Elected	12/12-12/16

Purissima Hills Water District
Patrick Walter, General Manager
26375 Fremont Road
Los Altos Hills, California 94022
(650) 948-1217 – www.purissimawater.org

Purissima Hills Water District

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Introductory Section

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Los Altos Hills, CA 924022

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Purissima Hills Water District

January 11, 2017

Board of Directors
Purissima Hills Water District

Introduction

It is our pleasure to submit the Annual Financial Report for the Purissima Hills Water District (District) for the fiscal years ended June 30, 2016 and 2015, following guidelines set forth by the Governmental Accounting Standards Board. District staff prepared this financial report. The District is ultimately responsible for both the accuracy of the data and the completeness and the fairness of presentation, including all disclosures in this financial report. We believe that the data presented is accurate in all material respects. This report is designed in a manner that we believe necessary to enhance your understanding of the District's financial position and activities.

This report is organized into two sections: (1) Introductory and (2) Financial. The Introductory section offers general information about the District's organization and current District activities and reports on a summary of significant financial results. The Financial section includes the Independent Auditor's Report, Management's Discussion and Analysis of the District's basic financial statements, and the District's audited basic financial statements with accompanying Notes.

Generally Accepted Accounting Principles (GAAP) requires that management provide a narrative introduction, overview and analysis to accompany the financial statements in the form of the Management's Discussion and Analysis (MD&A) section. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The District's MD&A can be found immediately after the Independent Auditor's Report.

District Structure and Leadership

The Purissima Hills Water District is an independent special district, which operates under the authority of Division 12 of the California Water Code. The District was formed in 1955 and is governed by a five-member Board of Directors, elected at-large from within the District's service area. The General Manager administers the day-to-day operations of the District in accordance with policies and procedures established by the Board of Directors. The District employs approximately seven regular employees (four in the field, three in the office) in addition to a part-time conservation coordinator and a part-time GIS technician. The District's Board of Directors meets each month. Meetings are publicly noticed, and citizens are encouraged to attend.

District Services

The Purissima Hills Water District provides service to two-thirds of the Town of Los Altos Hills, a rural community adjacent to the cities of Palo Alto and Los Altos, and unincorporated areas in Santa Clara County to the south. The District serves predominantly single-family homes on minimum one-acre lots. The District's largest customer is Foothill College.

Purissima Hills Water District receives 100% of its water supply from San Francisco Public Utilities Commission (SFPUC) via two turnouts from the Hetch Hetchy pipeline along the Foothill Expressway on the northern edge of the District. The SFPUC water supply is gravity-fed through two 18" transmission mains to two pump stations that pump to tanks distributed throughout the District. The distribution system consists of 4 pressure zones, 11 tanks, 5 pumping stations, 15 pumps, and 80 miles of pipeline. All services within the District are pressurized or gravity fed from tanks in the respective pressure zones. The tanks have a total capacity of 9.88 million gallons.

Economic Condition and Outlook

The District office is located in the Town of Los Altos Hills in Santa Clara County. The economic outlook for water sales in the Northern California region is one of minimal growth, due to the recent on-going drought. Due to the consumption reductions, and the resultant rate increase, a return to prior revenue levels remains uncertain.

Internal Control Structure

District management is responsible for the establishment and maintenance of the internal control structure that ensures the assets of the District are protected from loss, theft or misuse. The internal control structure also ensures adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The District's internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budgetary Control

The District's Board of Directors annually adopts an operating and capital budget prior to the new fiscal year. The budget authorizes and provides the basis for reporting and control of financial operations and accountability for the District's enterprise operations and capital projects. The budget and reporting treatment applied to the District is consistent with the accrual basis of accounting and the financial statement basis.

Investment Policy

The Board of Directors has adopted an investment policy that conforms to state law, District ordinance and resolutions, prudent money management, and the "prudent person" standards. The objective of the Investment Policy is safety, liquidity and yield. District funds are invested in the State Treasurer's Local Agency Investment Fund and an institutional checking account.

Water Rates and District Revenues

District policy direction ensures that all revenues from user charges and surcharges generated from District customers must support all District operations, including capital project funding. Accordingly, water rates are reviewed on an annual basis. Water rates are user charges imposed on customers for services and are the primary component of the District's revenue. Water rates are composed of a commodity (usage) charge and a fixed meter standby charge.

Audit and Financial Reporting

State Laws require the District to obtain an annual audit of its financial statements by an independent certified public accountant. The accounting firm of Fedak & Brown LLP has conducted the audit of the District's financial statements. Their unmodified Independent Auditor's Report appears in the Financial Section.

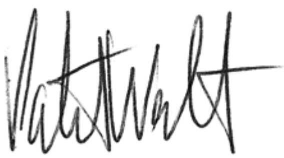
Other References

More information is contained in the Management's Discussion and Analysis and the Notes to the Basic Financial Statements found in the Financial Section of the report.

Acknowledgements

Preparation of this report was accomplished by the combined efforts of District staff. We appreciate the dedicated efforts and professionalism that these staff members contribute to the District. We would also like to thank the members of the Board of Directors for their continued support in planning and implementation of the Purissima Hills Water District's fiscal policies.

Respectfully submitted,



Patrick Walter
General Manager

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Financial Section

Independent Auditor's Report

Board of Directors
Purissima Hills Water District
Los Altos Hills, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Purissima Hills Water District (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 as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits 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 and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 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 financial statements.

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

Opinions

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

Independent Auditor's Report, continued

Emphasis of Matter

As described in note 1 to the financial statements, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 72 – *Fair Value Measurement and Application* and early implementation of Statement No. 79 – *Certain External Investment Pools and Pool Participants*, for the year ended June 30, 2016; and GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions* and No. 71 – *Pension Transition for Contributions made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*, for the year ended June 30, 2015. Our opinion is not modified with respect to these matters.

Other Matters
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 10 and required supplementary information on pages 36 and 37 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 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 11, 2017 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance. This report can be found on pages 38 and 39.

Fedak & Brown LLP
Cypress, California
January 11, 2017

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Purissima Hills Water District (District) provides an introduction to the financial statements of the District for the fiscal years ended June 30, 2016 and 2015. The two year presentation is provided for comparative purposes. We encourage readers to consider the information presented here in conjunction with the transmittal letter in the Introductory Section and with the basic financial statements and related notes, which follow this section.

Financial Highlights

- In 2016, the District's net position increased 3.2%, or $810,773 to $26,202,897 from ongoing operations. In 2015, the District's net position decreased 0.5%, or $134,401 to $25,392,124, which was due primarily to a $313,136 increase from operations, which was offset by a $447,537 decrease related to the implementation of GASB 68 and unbilled receivables. (See note 8 for further information).
- In 2016, the District's operating revenues decreased 3.5%, or $159,730, primarily due to an $183,323 decrease in water consumption sales, which was offset by an increase of $17,808 in other charges. In 2015, the District's operating revenues decreased 23.1%, or $1,362,088, which was primarily due to a $1,386,323 decrease in water consumption sales, which was offset by an increase of $20,318 in other charges.
- In 2016, the District's operating expenses decreased 1.0%, or $43,845, primarily due to decreases of $66,135 in transmission and distribution, $35,624 in pumping, $13,606 in general and administrative, and $6,272 in water treatment expenses, which was offset by increases of $75,237 in source of supply expenses. In 2015, the District's operating expenses increased 0.5%, or $23,723, primarily due to increases of $48,897 in transmission and distribution, $38,564 in general and administrative, and $11,018 in water treatment expenses, which was offset by decreases of $53,860 in source of supply and $15,729 in pumping expenses.

Required Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies.

The Statement of Net Position includes all of the District's investments in resources (assets), deferred outflows of resources, the obligations to creditors (liabilities), and deferred inflows of resources. It also provides the basis for computing a 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 revenue 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 if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness. The final required financial statement is the Statement of Cash Flows, which provides 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, non-capital financing, and capital and related financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of the District

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the District in a way that helps answer this question.

These statements include all assets, deferred outflows, liabilities, and deferred inflows using the *accrual basis of accounting*, which is similar to the accounting method used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's *net position* and changes in them. You can think of the District's net position – the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources – as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position are one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, zoning and new or changed government legislation, such as changes in Federal and State water quality standards.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 15 through 35.

Statements of Net Position

Condensed Statements of Net Position

	2016	2015	Change
Assets:			
Current assets	$ 1,774,808	2,356,127	(581,319)
Capital assets, net	25,490,712	24,100,463	1,390,249
Total assets	27,265,520	26,456,590	808,930
Deferred outflows of resources	69,787	52,261	17,526
Liabilities:			
Current liabilities	681,179	627,613	53,566
Non-current liabilities	235,576	313,189	(77,613)
Total liabilities	916,755	940,802	(24,047)
Deferred inflows of resources	215,655	175,925	39,730
Net position:			
Net investment in capital assets	25,490,712	24,100,463	1,390,249
Unrestricted	712,185	1,291,661	(579,476)
Total net position	$ 26,202,897	25,392,124	810,773

Statements of Net Position, continued

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets of the District exceeded liabilities by $26,202,897 and $25,392,124, as of June 30, 2016 and 2015, respectively.

By far the largest portion of the District's net position (97% and 95% as of June 30, 2016 and 2015, respectively) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are not available for future spending.

At the end of fiscal years 2016 and 2015, the District showed a positive balance in its unrestricted net assets of $712,185 and $1,291,661, respectively, which may be utilized in future years. See note 7 for further discussion.

Statements of Revenues, Expenses and Changes in Net Position

Condensed Statements of Revenues, Expenses and Changes in Net Position

	2016	2015	Change
Revenues:			
Operating revenues	$ 4,378,052	4,537,782	(159,730)
Non-operating revenues	1,045,092	990,258	54,834
Total revenues	5,423,144	5,528,040	(104,896)
Expenses:			
Operating expenses	4,450,099	4,493,944	(43,845)
Depreciation and amortization	844,050	796,489	47,561
Non-operating expenses	-	438	(438)
Total expenses	5,294,149	5,290,871	3,278
Net income before capital contributions	128,995	237,169	(108,174)
Capital contributions:	681,778	75,967	605,811
Change in net position	810,773	313,136	497,637
Net position – beginning of year – as previously stated	25,392,124	25,526,525	(134,401)
Prior period adjustment	-	(447,537)	447,537
Net position – beginning of year – as restated	25,392,124	25,078,988	313,136
Net position – end of year	$ 26,202,897	25,392,124	810,773

Statements of Revenues, Expenses and Changes in Net Position, continued

The statement of revenues, expenses and changes of net position shows how the District's net position changed during the fiscal years. In the case of the District, net position increased in fiscal year 2016 by $810,773, from ongoing operations. In fiscal year 2015, net position decreased by $134,401, which was due primarily to a $313,136 increase from operations, which was offset by a $447,537 decrease related to the implementation of GASB 68 and unbilled receivables. (See note 8 for further information).

A closer examination of the sources of changes in net position reveals that:

In 2016, the District's operating revenues decreased 3.5%, or $159,730, which was primarily due to an $183,323 decrease in water consumption sales, which was offset by an increase of $17,808 in other charges.

In 2015, the District's operating revenues decreased 23.1%, or $1,362,088, which was primarily due to a $1,386,323 decrease in water consumption sales, which was offset by an increase of $20,318 in other charges.

In 2016, the District's operating expenses decreased 1.0%, or $43,845, primarily due to decreases of $66,135 in transmission and distribution, $35,624 in pumping, $13,606 in general and administrative, and $6,272 in water treatment expenses, which was offset by increases of $75,237 in source of supply expenses.

In 2015, the District's operating expenses increased 0.5%, or $23,723 in 2015, primarily due to increases of $48,897 in transmission and distribution, $38,564 in general and administrative, and $11,018 in water treatment expenses, which was offset by decreases of $53,860 in source of supply and $15,729 in pumping expenses.

Capital Asset Administration

At the end of fiscal year 2016 and 2015, the District's investment in capital assets amounted to $25,490,712 and $24,100,463 (net of accumulated depreciation), respectively. This investment in capital assets includes land, transmission and distribution systems, tanks, pumps, buildings, equipment, vehicles and construction-in-process, etc. Major capital assets additions during the year include improvements to portions the District's transmission and distribution system, upgrades to the pumping plant and additions to general plant and equipment assets.

Changes in capital assets amounts for 2016 were as follows:

	Balance 2015	Additions	Transfers/ Deletions	Balance 2016
Capital assets:				
Non-depreciable assets	$ 688,961	2,252,913	(2,584,159)	357,715
Depreciable assets	35,738,665	2,565,545	-	38,304,210
Accumulated depreciation and amortization	(12,327,163)	(844,050)	-	(13,171,213)
Total capital assets, net	$ 24,100,463	3,974,408	(2,584,159)	25,490,712

Capital Asset Administration, continued

Changes in capital assets amounts for 2015 were as follows:

		Balance 2014	Additions	Transfers/ Deletions	Balance 2015
Capital assets:					
Non-depreciable assets	$	1,591,202	1,537,792	(2,440,033)	688,961
Depreciable assets		33,298,632	2,440,033	-	35,738,665
Accumulated depreciation and amortization		(11,530,674)	(796,489)	-	(12,327,163)
Total capital assets, net	$	23,359,160	3,181,336	(2,440,033)	24,100,463

Conditions Affecting Current Financial Position

Management is unaware of any conditions which could have a significant impact on the District's current financial position, net assets or operating results based on past, present and future events.

Requests for Information

This financial report is designed to provide the District's funding sources, customers, stakeholders, and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's General Manager at 26375 Fremont Road, Los Altos Hills, CA 94022.

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Basic Financial Statements

Purissima Hills Water District
Statements of Net Position
June 30, 2016 and 2015

		2016	2015
Current assets:			
Cash and cash equivalents (note 2)	$	711,517	1,528,452
Accrued interest receivable		660	885
Accounts receivable – water sales and services, net		691,167	465,817
Accounts receivable – other		38,206	9,870
Water in storage inventory		10,184	13,776
Materials and supplies inventory		282,931	284,478
Prepaids and deposits		40,143	52,849
Total current assets		1,774,808	2,356,127
Non-current assets:			
Capital assets, net (note 3)		25,490,712	24,100,463
Total non-current assets		25,490,712	24,100,463
Total assets		27,265,520	26,456,590
Deferred outflows of resources:			
Deferred pension outflows (note 5)		69,787	52,261
Total deferred outflows of resources		69,787	52,261
Current liabilities:			
Accounts payable and accrued expenses		573,958	560,576
Accrued salaries and wages		8,981	7,765
Customer deposits and unearned revenue		92,448	52,746
Long-term liabilities – due within one year:			
Compensated absences (note 4)		5,792	6,526
Total current liabilities		681,179	627,613
Non-current liabilities:			
Long-term liabilities – due in more than one year:			
Net pension liability (note 5)		235,576	313,189
Total non-current liabilities		235,576	313,189
Total liabilities		916,755	940,802
Deferred inflows of resources:			
Deferred pension inflows (note 5)		215,655	175,925
Total deferred inflows of resources		215,655	175,925
Net position: (note 6, 7)			
Net investment in capital assets		25,490,712	24,100,463
Unrestricted		712,185	1,291,661
Total net position	$	26,202,897	25,392,124

See accompanying notes to the basic financial statements

Purissima Hills Water District
Statements of Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended June 30, 2016 and 2015

	2016	2015
Operating revenues:		
Water consumption sales	$ 3,789,678	3,973,001
Service charges	491,420	485,635
Other charges	96,954	79,146
Total operating revenues	4,378,052	4,537,782
Operating expenses:		
Source of supply	2,774,777	2,699,540
Pumping	221,009	256,633
Transmission and distribution	701,070	767,205
Water treatment	14,279	20,551
Customer accounts	110,067	107,512
General and administrative	628,897	642,503
Total operating expenses	4,450,099	4,493,944
Operating income before depreciation and amortization	(72,047)	43,838
Depreciation and amortization	(844,050)	(796,489)
Operating income (loss)	(916,097)	(752,651)
Non-operating revenue (expense)		
Property taxes	834,087	777,557
Rental income – cellular antennas	208,161	209,326
Investment earnings and interest	2,844	3,375
Interest expense – long-term debt	-	(438)
Total non-operating revenues, net	1,045,092	989,820
Net income before capital contributions	128,995	237,169
Capital contributions:		
Connection fees	57,374	75,967
Contributed capital – Fire Department	624,404	-
Total capital contributions	681,778	75,967
Change in net position	810,773	313,136
Net position – beginning of year – as previously stated	25,392,124	25,526,525
Prior period adjustment (note 7)	-	(447,537)
Net position – beginning of year – as restated	25,392,124	25,078,988
Net position – end of year	$ 26,202,897	25,392,124

See accompanying notes to the basic financial statements

Purissima Hills Water District
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2016 and 2015

		2016	2015
Cash flows from operating activities:			
Cash receipts from customers for water sales and services	$	4,168,489	4,866,711
Cash paid to employees for salaries, wages and benefits		(1,010,012)	(912,653)
Cash paid to vendors and suppliers for water and power		(2,992,194)	(2,951,612)
Cash paid to vendors and suppliers for materials and services		(476,011)	(960,459)
Net cash (used in) provided by operating activities		(309,728)	41,987
Cash flows from non-capital financing activities:			
Proceeds from rental income – cellular antennas		208,161	209,326
Proceeds from property taxes		834,087	777,557
Net cash provided by non-capital financing activities		1,042,248	986,883
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets		(2,234,302)	(1,537,792)
Receipt of contractor retentions		-	(124,164)
Capital contributions		681,778	75,967
Principal paid on long-term debt		-	(400,000)
Interest paid on long-term debt		-	(438)
Net cash used in capital and related financing activities		(1,552,524)	(1,986,427)
Cash flows from investing activities:			
Interest earnings		3,069	3,537
Net cash provided by investing activities		3,069	3,537
Net decrease in cash and cash equivalents		(816,935)	(954,020)
Cash and cash equivalents – beginning of year		1,528,452	2,482,472
Cash and cash equivalents – end of year	$	711,517	1,528,452

Reconciliation of cash and cash equivalents to statements of financial position:

Cash and cash equivalents	$	711,517	1,528,452
Total cash and cash equivalents	$	711,517	1,528,452

Continued on next page

See accompanying notes to the basic financial statements

Purissima Hills Water District
Statements of Cash Flows, continued
For the Fiscal Years Ended June 30, 2016 and 2015

		2016	2015
Reconciliation of operating income to net cash used in operating activities:			
Operating income	$	(916,097)	(752,651)
Adjustments to reconcile operating income to net cash (used in) provided by operating activities:			
Deprecation and amortization		844,050	796,489
Change in assets – (increase) decrease:			
Accounts receivable		(253,686)	325,888
Inventory		5,139	159,129
Prepaids and deposits		12,705	(7,690)
Changes in deferred outflows – (increase) decrease:		(17,526)	16,998
Change in liabilities – increase (decrease):			
Accounts payable and accrued expenses		13,386	(469,032)
Accrued salaries and wages		1,216	92
Compensated absences		(734)	3,588
Customer deposits and unearned revenue		39,702	(3,142)
Net pension liability		(77,613)	(203,607)
Changes in deferred inflows – increase:		39,730	175,925
Total adjustments		606,369	794,638
Net cash (used in) provided by operating activities	$	(309,728)	41,987
Non-cash financing and investing, capital, and financing transaction:			
Change in fair-market value of funds deposited with LAIF	$	174	471

See accompanying notes to the basic financial statements

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

The Purissima Hills Water District (District) was formed in 1955 and provides service to two-thirds of the Town of Los Altos Hills, a rural community adjacent to the cities of Palo Alto and Los Altos, and unincorporated areas in Santa Clara County to the south. The District serves predominantly single-family homes on minimum one-acre lots. The District's largest customer is Foothill College. The District is governed by a five-member Board of Directors who each serves four year terms.

Purissima Hills Water District receives 100% of its water supply from San Francisco Public Utilities Commission (SFPUC) via two turnouts from the Hetch Hetchy pipeline along the Foothill Expressway on the northern edge of the District. The SFPUC water supply is gravity-fed through 18" transmission mains to two pump stations that pump to tanks distributed throughout the District. The distribution system consists of 4 pressure zones, 11 tanks, 5 pumping stations, 15 pumps, and 80 miles of pipe. All services within the District are pressurized or gravity fed from tanks in the respective pressure zones. The tanks have a total capacity of 10 million gallons.

Basis of Accounting and Measurement Focus

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs of providing water to its service area on a continuing basis be financed or recovered primarily through user charges (water sales), capital grants and similar funding. Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned, and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

Operating revenues and expenses, such as water sales and water purchases, 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. Management, administration, and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

Financial Reporting

The District's basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to enterprise funds. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District solely operates as a special-purpose government which means it is only engaged in business-type activities; accordingly, activities are reported in the District's proprietary fund.

Accounting Pronouncements

The financial statements of the Authority are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) issued by the Governmental accounting Standards Board (GASB) applicable to governmental entities that use proprietary fund accounting.

Note 1 – Summary of Significant Accounting Policies, continued

Accounting Pronouncements, continued

The District has adopted the following GASB pronouncements in the current year:

In February 2015, the GASB issued Statement No. 72 – *Fair Value Measurement and Application,* effective for financial statements for periods beginning after June 15, 2015. The objective of this Statement is to enhance comparability of financial statements among governments by measurement of certain assets and liabilities at their fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement establishes a hierarchy of inputs to valuation techniques used to measure fair value.

In June 2015, the GASB issued Statement No. 73 – *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement 67 and 68,* effective for fiscal years beginning after June 15, 2015. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement establishes requirements for defined benefit pensions that are not within the Scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions.

In June 2015, the GASB issued Statement No. 76 – *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,* effective for financial statements for periods beginning after June 15, 2015. This Statement replaces the requirements of Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of local governmental entities in conformity with GAAP and the framework for selecting those principles. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment is not specified within the source of authoritative GAAP.

In December 2015, the GASB issued Statement No. 79 – *Certain External Investment Pools and Pool Participants,* effective for financial statements for periods beginning after June 15, 2015. This Statement enhances comparability of financial statements among governments by establishing specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement. Those criteria will provide qualifying external investment pools and participants in those pools with consistent application of an amortized cost-based measurement for financial reporting purposes. That measurement approximates fair value and mirrors the operations of external investment pools that transact with participants at a stable net asset value per share.

Prior Year Financial Data Presentation

In 2016, the District has presented the annual financial statements with prior year data for comparative purposes. The District has restated comparative prior year data for the adjustment to net position for unbilled receivables. The District has not restated comparative prior year data with regard to GASB 68 and 71, as all information available to restate prior year amounts was not readily available. Please see note 8 for further information.

Note 1 – Summary of Significant Accounting Policies, continued

Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows, liabilities, deferred inflows, and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in net position during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Substantially all of the District's cash is invested in interest bearing accounts. The District considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

Investments

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

Fair Value Measurements

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on valuation inputs used to measure the fair value of the asset, as follows:

- **Level 1** – This valuation level is based on quoted prices in active markets for identical assets.
- **Level 2** – This valuation level is based on directly observable and indirectly observable inputs. These inputs are derived principally from or corroborated by observable market data through correlation or market-corroborated inputs. The concept of market-corroborated inputs incorporates observable market data such as interest rates and yield curves that are observable at commonly quoted intervals.
- **Level 3** – This valuation level is based on unobservable inputs where assumptions are made based on factors such as prepayment rates, probability of defaults, loss severity and other assumptions that are internally generated and cannot be observed in the market.

Accounts Receivable and Allowance for Uncollectible Accounts

The District extends credit to customers in the normal course of operations. When management deems customer accounts uncollectible, the District uses the allowance method for the reservation and write-off of those accounts.

Property Taxes and Assessments

The Santa Clara County Assessor's Office assesses all real and personal property within the County each year. The Santa Clara County Tax Collector's Offices bills and collects the District's share of property taxes and assessments. The Santa Clara County Treasurer's Office remits current and delinquent property tax collections to the District throughout the year. Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations.

Note 1 – Summary of Significant Accounting Policies, continued

Property Taxes and Assessments, continued

Property taxes receivable at year-end are related to property taxes collected by the Santa Clara County which have not been credited to the District's cash balance as of June 30. The property tax calendar is as follows:

Lien date	March 1
Levy date	July 1
Due dates	November 1 and March 1
Collection dates	December 10 and April 10

Materials and Supplies Inventory

Materials and supplies inventory consists primarily of water meters, pipe and pipefittings for construction and repair to the District's water transmission and distribution system. Inventory is valued at cost using a weighted average method. Inventory items are charged to expense at the time that individual items are withdrawn from inventory or consumed.

Prepaids

Certain payments to vendors reflects costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at $5,000. Donated assets are recorded at estimated fair market value at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

- Transmission and distribution mains – 33 to 50 years
- Buildings – 33 years
- Transportation and other equipment – 10 years
- Computer and office equipment – 5 years

Deferred Outflows of Resources

The statement of net position reports a separate section for deferred outflows of resources. This financial statement element, *deferred outflows of resources*, represents a consumption of resources applicable to future periods and therefore will *not* be recognized as an outflow of resources (expenditure) until that time. Included is a deferred outflow related to pensions equal to the employer contributions made after the measurement date of the net pension liability. This amount will be amortized-in-full against the net pension liability in the next fiscal year. Additionally, a deferred outflow related to pensions for the differences between expected and actual experience will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plans determined as of the measurement date June 30, 2015, which is a 3.8 year period.

Note 1 – Summary of Significant Accounting Policies, continued

Compensated Absences

The District's policy is to permit employees to accumulate earned vacation up to a total of 240 hours with amounts exceeding the limit being paid out as part of the employee's regular compensation. Upon termination of employment, employees are paid all unused vacation and forfeit any unused sick time.

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 Authority's California Public Employees' Retirement System (CalPERS) plans (Plans) and addition to/deduction 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.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

- Valuation Date: June 30, 2014 and 2013
- Measurement Date: June 30, 2015 and 2014
- Measurement Period: July 1, 2014 to June 30, 2015 and July 1, 2013 to June 30, 2014

Deferred Inflows of Resources

The statement of net position and the governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This financial statement element, *deferred inflows of resources*, represents an acquisition of resources applicable to future periods and therefore will *not* be recognized as an inflow of resources (revenue) until that time. Deferred inflows related to pensions for the changes in assumptions, differences between the actual employer contributions and the proportionate share of contributions and net changes in proportions amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plans determined as of the measurement date June 30, 2015, which is 3.8 year period. Additionally, a deferred inflow related to pensions for the net difference in projected and actual earnings on investments of the pension plans fiduciary net position will be amortized over a 5 year period.

Water Sales

Water sales are billed on a monthly cyclical basis.

Capital Contributions

Capital contributions represent cash and capital asset additions contributed to the District by property owners, granting agencies, or real estate developers desiring services that require capital expenditures or capacity commitment.

Note 1 – Summary of Significant Accounting Policies, continued

Net Position

The District follows the financial reporting requirements of the GASB and reports net position under the following classifications:

- *Net Investment in Capital Assets* – Investment in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and amortization, and reduced by outstanding balances of any debt, or other long-term borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- *Restricted* – Restricted consists of assets that have restrictions placed upon their use by external constraints imposed either by creditors (debt covenants), grantors, contributors, or laws and regulations of other governments or constraints imposed by law through enabling legislation.
- *Unrestricted* – Unrestricted consists of any remaining balance of the District's net position that do not meet the definition of "restricted" or "net investment in capital assets".

Budgetary Policies

The District adopts an annual non-appropriated budget for planning, control, and evaluation purposes. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period. Encumbrance accounting is not used to account for commitments related to unperformed contracts for construction and services.

Reclassification

The District has reclassified certain prior year information to conform with current year presentations.

Note 2 – Cash and Investments

Cash and cash equivalents as of June 30, are classified in the accompanying financial statements as follows:

		2016	2015
Cash and cash equivalents	$	711,517	1,528,452

Cash and cash equivalents as of June 30, consist of the following:

		2016	2015
Petty cash	$	428	501
Deposits with financial institutions		431,059	275,924
Local Agency Investment Fund (LAIF)		280,030	1,252,027
Total cash and cash equivalents	$	711,517	1,528,452

As of June 30, the District's authorized deposits had the following maturities:

	2016	2015
Deposits held with California Local Agency Investment Fund (LAIF)	167 days	239 days

Note 2 – Cash and Investments, continued

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

The table below identifies the investment types that are authorized by the District in accordance with 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.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment in One Issuer
U.S. Treasury obligations	5 years	None	None
Federal agency and bank obligations	5 years	None	None
Certificates-of-deposit (negotiable or placed)	5 years	30%	10%
Commercial paper (prime)	270 days	10%	10%
Money market mutual funds	N/A	20%	None
State and local bonds, notes and warrants	N/A	None	None
California Local Agency Investment Fund (LAIF)	N/A	None	None

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 California Government Code and the District's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, 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. Of the bank balances, up to $250,000 held at each institution were federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

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. The Code and the District's investment policy contain legal and policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

Investment in State Investment Pool

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

Note 2 – Cash and Investments, continued

Investment in State Investment Pool, continued

The District's deposit and withdrawal restrictions and limitations are as follows:

- Same day transaction processing occurs for orders received before 10:00 a.m.
- Next day transactions processing occurs for orders received after 10:00 a.m.
- Maximum limit of 15 transactions (combination of deposits and withdrawals) per month.
- Minimum transaction amount requirement of $5,000, in increments of a $1,000 dollars.
- Withdrawals of $10,000,000 or more require 24 hours advance.
- Prior to funds transfer, an authorized person must call LAIF to do a verbal transaction.

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 change 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 matures or comes close to maturity evenly over time as necessary to provide for cash flow requirements and liquidity needed for operations.

Credit Risk

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. Presented below is the minimum rating required by (where applicable) the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

Concentration of Credit Risk

The District's investment policy contains no limitations on the amounts that can be invested in any one issuer as beyond that stipulated by the California Government Code. There were no investments in any one issuer (other than for U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District's investments at June 30, 2016 and 2015, respectively.

Fair Value Measurements

At June 30, 2016 and 2015 the District did not hold any investments which require measurement at fair value on a recurring and non-recurring basis.

Note 3 – Capital Assets

Changes in capital assets for 2016 were as follows:

	Balance 2015	Additions/ Transfers	Deletions/ Transfers	Balance 2016
Non-depreciable assets:				
Land & land rights	$ 180,099	-	-	180,099
Construction-in-process	508,862	2,252,913	(2,584,159)	177,616
Total non-depreciable assets	688,961	2,252,913	(2,584,159)	357,715
Depreciable assets:				
Supply plant	235,560	-	-	235,560
Pumping plant	2,491,347	64,196	-	2,555,543
Transmission and distribution mains	30,874,891	2,454,173	-	33,329,064
General plant and equipment	2,136,867	47,176	-	2,184,043
Total depreciable assets	35,738,665	2,565,545	-	38,304,210
Accumulated depreciation and amortization	(12,327,163)	(844,050)	-	(13,171,213)
Total depreciable assets, net	23,411,502	1,721,495	-	25,132,997
Total capital assets, net	$ 24,100,463			25,490,712

In 2016, major capital assets additions include upgrades and extensions of the District's transmission and distribution mains, upgrades to the pumping plant and additions to general plant and equipment.

Changes in capital assets for 2015 were as follows:

	Balance 2014	Additions/ Transfers	Deletions/ Transfers	Balance 2015
Non-depreciable assets:				
Land & land rights	$ 180,099	-	-	180,099
Construction-in-process	1,411,103	1,537,792	(2,440,033)	508,862
Total non-depreciable assets	1,591,202	1,537,792	(2,440,033)	688,961
Depreciable assets:				
Supply plant	235,560	-	-	235,560
Pumping plant	2,434,587	56,760	-	2,491,347
Transmission and distribution mains	28,491,618	2,383,273	-	30,874,891
General plant and equipment	2,136,867	-	-	2,136,867
Total depreciable assets	33,298,632	2,440,033	-	35,738,665
Accumulated depreciation and amortization	(11,530,674)	(796,489)	-	(12,327,163)
Total depreciable assets, net	21,767,958	1,643,544	-	23,411,502
Total capital assets, net	$ 23,359,160			24,100,463

In 2015, major capital assets additions include upgrades and extensions of the District's transmission and distribution mains and upgrades to the pumping plant.

Construction-In-Process

The District is involved in various construction projects throughout the year. Once completed, projects are capitalized and depreciated over the life of the asset. The balance of construction-in-process was $177,616 and $508,862 at June 30, 2016 and 2015, respectively.

Note 4 – Compensated Absences

Compensated absences comprise unpaid vacation leave, sick leave and compensating time off which is accrued as earned. The District's liability for compensated absences is determined annually.

Changes to compensated absences balances at June 30, were as follows:

Balance 2015	Additions	Deletions	Balance 2016
$ 6,526	60,192	(60,583)	5,792

Balance 2014	Additions	Deletions	Balance 2015
$ 2,753	56,877	(53,104)	6,526

Note 5 – Long-Term Debt

Los Altos Hills County Fire District Loan

In 2010, the Purissima Hills Water District entered into $2,000,000 loan payable agreement with the Los Altos Hills County Fire District (LAHCFD) to assist in financing the construction of the Zone 2-1/2 Phase II and III mains project. Terms of the agreement provide for principal payable semi-annually on July 15th and October 15th of each year maturing in 2015. Interest is payable quarterly by January 15th, April 15th, July 15th, and October 15th. Interest is calculated based on the Local Agency Investment Fund average monthly effective yield rate. At June 30, 2015, the loan was paid-in-full.

Note 6 – Defined Benefit Pension Plan

Plan Description

All qualified permanent and probationary employees are eligible to participate in the District's separate Miscellaneous Employee Pension Plans, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan is established by State statute and Local Government 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 or may be obtained from their executive office: 400 P Street, Sacramento, CA, 95814.

Benefits Provided

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 each plan are applied as specified by the Public Employees' Retirement Law.

On September 12, 2012, the California Governor signed the California Public Employees' Pension Reform Act of 2013 (PEPRA) into law. PEPRA took effect January 1, 2013. The new legislation closed the District's CalPERS 2.0% at 60 Risk Pool Retirement Plan to new employee entrants, not previously employed by an agency under CalPERS, effective December 31, 2013. All employees hired after January 1, 2013 are eligible for the District's CalPERS 2.0% at 62 Retirement Plan under PEPRA.

Note 6 – Defined Benefit Pension Plan, continued

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

	Miscellaneous Plan	
	Tier 1	**Tier 2**
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.0% @ 60	2.0% @ 62
Benefit vesting schedule	5 years of service	5 years of 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 2.5%	1.0% to 2.5%
Required employee contribution rates	7.00%	6.25%
Required employer contribution rates	7.510%	6.37%

As of June 30, 2015, an actuarial report was not prepared by CalPERS for the District's PEPRA tier. CalPERS made this determination as a result of the District not having PEPRA eligible employees between the period January 1, 2013 and June 30, 2013, the valuation date of the actuarial report provided.

Contributions

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 July 1 following notice of the change in rate. Funding contributions for the Plan is 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. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

Contributions, continued

As of the fiscal year ended June 30, the contributions recognized as part of pension expense for the District's Plan was as follows:

		Miscellaneous Plan	
		2016	**2015**
Contributions – employer	$	66,959	49,680
Contributions – employee (paid by employer)		43,180	41,946
Total employer paid contributions	$	110,139	91,626

Net Pension Liability

As of the fiscal year ended June 30, the District reported net pension liabilities for its proportionate share of the net pension liability of the Plan was as follows:

		Proportionate Share of Net Pension Liability	
		2016	**2015**
Miscellaneous Plan	$	235,576	313,189

Note 6 – Defined Benefit Pension Plan, continued

The 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, 2015 and 2014, 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 and 2013, rolled forward to June 30, 2015 and 2014, using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

The District's proportionate share of the pension liability for the District's Plan as of the June 30, 2014 and 2015, was as follows:

	Miscellaneous Plan
Proportion – June 30, 2014	0.00503%
Proportion – June 30, 2015	0.00343%
Change – Increase (Decrease)	-0.00160%

The District's proportionate share of the pension liability for the District's Plan as of the June 30, 2013 and 2014, was as follows:

	Miscellaneous Plan
Proportion – June 30, 2013	0.00641%
Proportion – June 30, 2014	0.00343%
Change – Increase (Decrease)	-0.00298%

Deferred Pension Outflows (Inflows) of Resources

As of June 30, 2016 and 2015, the District recognized pension expense of $11,551 and $38,996, respectively.

As of the fiscal year ended June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Note 6 – Defined Benefit Pension Plan, continued

Deferred Pension Outflows (Inflows) of Resources, continued

As of June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to the measurement date	$ 66,959	-
Differences between actual and expected experience	2,828	-
Changes in assumptions	-	(26,751)
Net differences between projected and actual earnings on plan investments	-	(13,411)
Differences between actual contribution and proportionate share of contribution	-	(33,384)
Net adjustment due to differences in proportions of net pension liability	-	(142,109)
Total	$ 69,787	(215,655)

As of June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to the measurement date	$ 49,680	-
Net differences between projected and actual earnings on plan investments	-	(175,925)
Net adjustment due to differences in proportions of net pension liability	2,581	-
Total	$ 52,261	(175,925)

As of June 30 2016 and 2015, employer pension contributions of $66,959 and $49,680, respectively, reported as deferred outflows of resources related to contributions subsequent to the measurement date were and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017 and 2016, respectively.

Note 6 – Defined Benefit Pension Plan, continued

Deferred Pension Outflows (Inflows) of Resources, continued

At June 30, 2016, the District recognized other amounts reported by the Plan actuarial as deferred outflows of resources and deferred inflows of resources related to the pension liability. Pension related amounts will be recognized as pension expense as follows.

Fiscal Year Ending June 30:		Deferred Net Outflows/(Inflows) of Resources
2017	$	(85,238)
2018		(85,423)
2019		(71,800)
2020		29,634
2021		-
Thereafter		-

Actuarial Assumptions

The total pension liability in the June 30, 2014 and 2013 actuarial valuation reports were determined using the following actuarial assumptions:

Valuation Date	June 30, 2014 and 2013
Measurement Date	June 30, 2015 and 2014
Actuarial cost method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial assumptions:	
Discount rate	7.50% Net of Administrative Expenses for 2015 and 2014
Inflation	2.75%
Salary increases	Varies by Entry Age and Service
Investment Rate of Return	7.50 % Net of Pension Plan Investment and Administrative Expenses; includes inflation
Mortality Rate Table*	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

* The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 Experience Study report. 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 7.50% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the 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 ran out of assets. Therefore, the current 7.50% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50% will be applied to all plans in the Public Employees' Retirement Fund (PERF). The stress test results are presented in a detailed report which can be obtained from the CalPERS website.

Note 6 – Defined Benefit Pension Plan, continued

Discount Rate, continued

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65%. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS confirmed the materiality threshold for the difference in the calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the Discount rate will require CalPERS Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the fiscal year ended 2017-2018. CalPERS will continue to check the materiality of the difference in the calculation until such time as it has changed its methodology.

The long-term expected rate of return on pension plan investments was determine 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.

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 calculates 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 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.

Asset Class	New Strategic Allocation	Real Return Years 1–10*	Real Return Year 11+**
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	12.0	6.83	6.95
Real Estate	11.0	4.50	5.13
Infrastructure and Forestland	3.0	4.50	5.09
Liquidity	2.0	(0.55)	(1.05)
Total	100.0%		

* An expected inflation of 2.5% used for this period

** An expected inflation of 3.0% used for this period

Note 6 – Defined Benefit Pension Plan, continued

Sensitivity of the Proportionate Share of Net Pension Liability to Changes in the Discount Rate

The following table presents the District's proportionate share of the net position liability for the Plan, calculated using the discount rate, as well as what the District's proportional share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate.

At June 30, 2016, the discount rate comparison was the following:

	Discount Rate - 1% 6.65%	Current Discount Rate 7.65%	Discount Rate + 1% 8.65%
District's Net Pension Liability	$ 306,518	235,576	80,602

At June 30, 2015, the discount rate comparison was the following:

	Discount Rate - 1% 6.50%	Prior Discount Rate 7.50%	Discount Rate + 1% 8.50%
District's Net Pension Liability	$ 694,512	313,189	(3,273)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in separately issued CalPERS financial reports. See pages 36 and 37 for the Required Supplementary Schedules.

Payable to the Pension Plan

At June 30, 2016 and 2015, the District reported no payables for the outstanding amount of contribution to the pension plan.

Note 7 – Net Position

Calculation of net position as of June 30, were as follows:

		2016	2015
Net investment in capital assets:			
Capital assets, net	$	25,490,712	24,100,463
Total net investment in capital assets		25,490,712	24,100,463
Unrestricted net position:			
Non-spendable net position:			
Water in storage inventory		10,184	13,776
Materials and supplies inventory		282,931	284,478
Prepaid expenses and deposits		40,143	52,849
Total non-spendable net position		333,258	351,103
Spendable net position is designated as follows:			
Undesignated net position reserve		378,927	940,558
Total spendable net position		378,927	940,558
Total unrestricted net position		712,185	1,291,661
Total net position	$	26,202,897	25,392,124

Note 8 – Adjustment to Net Position

Accounts Receivable – Unbilled Receivable

In fiscal year 2015, the District determined that revenue cutoff did not consider the adjustment of receivables for unbilled accounts receivable related to the 2014 fiscal year, causing receivable to be under accrued from what was reported in total receivables. Accordingly, the District has recorded a prior period adjustment to net position in the amount of $223,072 at June 30, 2014.

Net Pension Liability – GASB 68 Implementation

In fiscal year 2015, the District implemented GASB pronouncements 68 and 71 to recognize its proportionate share of the net pension liability. As a result of the implementation, the District recognized the pension liability and recorded a prior period adjustment, a (decrease) to net position, of $516,796 at July 1, 2014. The District recorded a prior period adjustment, increase to net position, to reclassify from expense to deferred outflows of resources, the prior year's proportionate share of employer pension contributions of $69,259 at July 1, 2014.

Note 8 – Adjustment to Net Position, continued

The adjustment to net position is as follows:

Net position at June 30, 2013, as previously stated	$	21,655,528
Effect of adjustment to record unbilled receivables		223,072
Change in net position at June 30, 2014, as previously stated		3,647,925
Total adjustment to net position		3,870,997
Net position at June 30, 2014, as restated	$	25,526,525
Effect of adjustment to record net pension liability	$	(516,796)
Effect of adjustment to record deferred pension outflows		69,259
Total adjustment to net position		(447,537)
Net position at July 1, 2014, as restated	$	25,078,988

Note 9 – Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California water agencies. The purpose of the ACWA/JPIA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2016, the District participates in the ACWA/JPIA pooled programs for liability, property, and workers' compensation programs of the as follows:

- General and auto liability, public officials and employees' errors and omissions: Total risk financing self-insurance limits of $2,000,000 per occurrence. The ACWA/JPIA purchased additional excess coverage layers: $58 million for general, auto and public officials liability, which increases the limits on the insurance coverage noted above.

In addition, the District also has the following insurance coverage:

- Crime coverage up to $100,000 per loss includes public employee dishonesty, depositor's forgery or alteration, theft, computer and funds transfer fraud coverage's, subject to $1,000 deductible per loss.
- Property loss is paid at the replacement cost for property on file, if replaced within two years after the loss, otherwise paid on an actual cash value basis, to a combined total of $150 million per loss, subject to a $5,000 deductible per loss. Mobile equipment and vehicles, on file, are paid on actual cost value basis at time of loss and subject to $5,000 deductible per loss.
- Boiler and machinery coverage for the replacement cost up to $150 million per occurrence, subject to various deductibles depending on the type of equipment, on file.
- Underground storage tank pollution liability: pooled self-insured limit of $500,000 per environmental accident claim with $3,000,000 annual aggregate limit; subject to a $10,000 deductible.
- Workers' compensation coverage up to California statutory limits for all work related injuries/illnesses covered by California law; a pooled self-insured limit of $2,000,000.

Note 9 – Risk Management, continued

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the years ending June 30, 2016, 2015 and 2014. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2016, 2015, and 2014, respectively.

Note 10 – Governmental Accounting Standards Board Statements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2016, that have effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 74

In June 2015, the GASB issued Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness or information about postemployment benefits other than pensions (other postemployment benefits of OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No.50, *Pension Disclosures*.

The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2016. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 75

In June 2015, the GASB issued Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

This Statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2017. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Note 10 – Governmental Accounting Standards Board Statements Issued, Not Yet Effective

Governmental Accounting Standards Board Statement No. 77

In August 2015, the GASB issued Statement No. 77 – *Tax Abatement Disclosures*. The objective of this Statement is to improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Financial statement users need information about certain limitations on a government's ability to raise resources. This includes limitations on revenue-raising capacity resulting from governmental programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. Tax abatements are widely used by state and local governments, particularly to encourage economic development. This Statement is effective for financial statements for periods beginning after December 15, 2015. It is believed that the implementation of this Statement will not have a material effect to the District's financial statements.

Governmental Accounting Standards Board Statement No. 80

In January 2016, the GASB issued Statement No. 80 – *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. This Statement is effective for financial statements for periods beginning after June 15, 2016. It is believed that the implementation of this Statement will not have a material effect to the District's financial statements.

Governmental Accounting Standards Board Statement No. 81

In March 2016, the GASB issued Statement No. 81 – *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. This Statement is effective for financial statements for periods beginning after December 15, 2016. It is believed that the implementation of this Statement will not have a material effect to the District's financial statements.

Governmental Accounting Standards Board Statement No. 82

In March 2016, the GASB issued Statement No. 82 – *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No.73*. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement is effective for financial statements for periods beginning after June 15, 2016. It is believed that the implementation of this Statement will not have a material effect to the District's financial statements.

Note 11 – Commitments and Contingencies

Grant Awards

Grant funds received by the District are subject to an audit by the grantor agencies. Such an audit could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the District believes that such disallowances, if any, would not be significant. The District has not received grant funding in fiscal years ended June 30, 2015 and 2014, respectively.

Litigation

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

Note 12 – Subsequent Event

Events occurring after June 30, 2016, have been evaluated for possible adjustment to the financial statements or disclosure as of January 11, 2017, which is the date the financial statements were available to be issued. The District is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

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Required Supplementary Information

Purissima Hills Water District
Schedule of the District's Proportionate Share of the Net Pension Liability
As of June 30, 2016 and 2015
Last Ten Years*

Description		Measurement Date 6/30/2015	Measurement Date 6/30/2014
District's Proportion of the Net Pension Liability		0.00343%	0.00503%
District's Proportionate Share of the Net Pension Liability	$	235,576	313,189
District's Covered-Employee Payroll	$	591,003	563,729
District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll		39.86%	55.56%
Plan's Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability		92.10%	89.10%

Notes:

Changes in Benefit Terms – The figures above do not include any liability impact that may have resulted from Plan changes which occurred after the June 30, 2014, valuation date.

Changes of Assumptions – For the June 30, 2015, measurement date, the discount rate was changed from 7.50% (net of administrative expense) to 7.65% percent to correct for an adjustment to exclude administrative expense.

***** Fiscal Year 2015 was the first year of implementation, therefore only two years are shown.

Purissima Hills Water District
Schedule of Pension Plan Contributions
As of June 30, 2016 and 2015
Last Ten Years*

Schedule of Pension Plan Contributions:		**Fiscal Year 2015-2016**	**Fiscal Year 2014-2015**	**Fiscal Year 2013-2014**
Actuarially Determined Contribution	$	66,307	22,925	43,152
Contributions in Relation to the Actuarially Determined Contribution		(66,959)	(49,680)	(43,152)
Contribution Deficiency (Excess)	$	(652)	(26,755)	-
Covered Payroll	$	617,228	591,003	563,729
Contribution's as a percentage of Covered-employee Payroll		10.74%	3.88%	7.65%

Notes:

The actuarial methods and assumptions used to set the actuarially determined contributions from June 30, 2014 through June 30, 2015 (the measurement period), were derived from the June 30, 2012, funding valuation report.

There were no changes in methods or assumptions used to determine the legally required contributions, which are actuarially determined, from the June 30, 2011 to the June 30, 2012, funding valuation report.

* Fiscal Year 2015 was the first year of implementation, therefore only three years are shown.

Report on Internal Controls and Compliance

Independent Auditor's Report on Internal Controls Over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Purissima Hills Water District
Los Altos Hills, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the Purissima Hills Water District (District), as of and for the years June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated January 11, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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 audits, 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*.

Independent Auditor's Report on Internal Controls Over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards, (continued)

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 District'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.

Fedak & Brown LLP
Cypress, California
January 11, 2017