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

FOR THE FISCAL YEARS ENDED
JUNE 30, 2015 AND 2014

JAMES MARTA & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS

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Mid-Peninsula Water District

Board of Directors

JUNE 30, 2015

Board of Directors

Name	Office	Term Expires December
Betty Linvill	President	2017
Matthew Zucca	Vice President	2015
Albert Stuebing	Director	2017
Dave Warden	Director	2017
Louis Vella	Director	2015

ADMINISTRATION

Tammy Rudock
General Manager

Mid-Peninsula Water District

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Mid-Peninsula Water District
Belmont, California

Report on the Financial Statements

We have audited the accompanying Statement of Net Position of Mid-Peninsula Water District (the District) as of June 30, 2015 and 2014 and the related Statements of Revenues, Expenses and Changes in Net Position and Cash Flows for the years then ended and the related notes to the financial statement.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the basic financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the basic financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Mid-Peninsula Water District as of June 30, 2015 and 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and Schedule of Funding Progress – Other Postemployment Benefits be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted principally of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Change in Accounting Principle

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2015 on our consideration of Mid-Peninsula Water District's internal control over financial reporting and our tests of its compliance with provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mid-Peninsula Water District's internal control over financial reporting and compliance.

James Marta & Company LLP

James Marta & Company LLP
Certified Public Accountants
Sacramento, California
October 14, 2015

MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of the Mid-Peninsula Water District's ("District") annual financial report presents a discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2015. It should be reviewed in conjunction with the District's basic financial statements for the fiscal year ended June 30, 2015.

FINANCIAL HIGHLIGHTS

- The District implemented Governmental Accounting Standards Board (GASB) Statement No. 68 – Accounting and Financial Reporting for Pensions. This change in accounting principle required a restatement and reduction of beginning net position in the amount of $1,193,079.

- After the restatements, the District's Net Position increased $619,400 (3%) during the fiscal year ended June 30, 2015.

- The District's operating revenues decreased from the previous year by $474,248 (-5%).

- Non-operating revenues decreased from the previous year by $8,285 (-1%).

- Operating expenses increased by $309,921 (3%).

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

USING THIS ANNUAL REPORT

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

District financial statements report financial information about the District using accounting methods similar to those used by private sector companies, which include Generally Accepted Accounting Principles (GAAP). The Statement of Net Position included all District assets and liabilities, and provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District.

All of the fiscal year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges.

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

FINANCIAL ANALYSIS OF THE DISTRICT

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

Statement of Net Position

	June 30, 2015	June 30, 2014	Amount Increase (Decrease)	Percent Increase (Decrease)	June 30, 2013
Current and Other Assets	$ 4,575,012	$ 5,617,101	$ (1,042,089)	-19%	$ 4,883,204
Capital Assets, Net	16,348,917	15,269,243	1,079,674	7%	14,388,043
Total Assets	20,923,929	20,886,344	37,585	0%	19,271,247
Deferred Outflows	203,461	-	203,461	0%	-
Current and Other Liabilities	263,696	476,804	(213,108)	-45%	293,901
Long-Term Liabilities	1,400,680	252,043	1,148,637	456%	231,703
Total Liabilities	1,664,376	728,847	935,529	128%	525,604
Deferred Inflows	218,718	-	218,718	0%	-
Invested in Capital Assets, Net	16,348,917	15,269,243	1,079,674	7%	14,388,043
Unrestricted Net Position	2,895,379	4,888,254	(1,992,875)	-41%	4,357,600
Total Net Position	$ 19,244,296	$ 20,157,497	$ (913,201)	-5%	$ 18,745,643

The District's net position at fiscal year end June 30, 2015 decreased $913,201 (-5%) when compared to fiscal year end June 30, 2014. Factors contributing to this decrease are mainly from the prior period adjustment recorded to reflect the CalPERS Net Pension Liability (GASB 68 requirement) of $1,193,079 (-1,593%). Additionally, Capital Reserves decreased by $989,937 (-53%) due to the construction completion of the Buckland Tank Replacement Project in Fiscal Year 2014/2015 totaling $1,038,132 (100%).

Changes in Net Position

Changes in the District's net position between fiscal year end June 30, 2015, and fiscal year end June 30, 2014, can be determined by reviewing the following condensed Statement of Revenue, Expenses, and Changes in Net Position.

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

	June 30, 2015	June 30, 2014	Amount Increase (Decrease)	Percent Increase (Decrease)	June 30, 2013
Operating Revenue	$ 9,340,103	$ 9,814,351	$ (474,248)	-5%	$ 9,403,414
Non-Operating Revenue	582,231	590,516	(8,285)	-1%	479,011
Total Revenues	9,922,334	10,404,867	(482,533)	-5%	9,882,425
Operating Expenses	9,302,934	8,993,013	309,921	3%	8,934,652
Non-Operating Expenses	-	-	-	0%	-
Total Expenses	9,302,934	8,993,013	309,921	3%	8,934,652
Change in Net Position	619,400	1,411,854	(792,454)	-56%	947,773
Net Position, Beginning - Original	20,157,497	18,745,643	1,411,854	8%	17,797,870
Change in Accounting Principle	(1,532,601)	-	(1,532,601)	0%	-
Net Position, Beginning - Restated	18,624,896	18,745,643	(120,747)	-1%	17,797,870
Net Position, Ending	$ 19,244,296	$ 20,157,497	$ (913,201)	-5%	$ 18,745,643

The District's Operating Revenues decreased by $474,248 (-5%) due to various factors. Water revenues decreased by $479,175 (-5%), primarily as a result of the District's overall reduction in water use by 17.1% for the fiscal year as a result of targeted water conservation. Miscellaneous revenues increased by $4,927 (7%).

The District's Non-Operating Revenues decreased by $8,285 (-1%) due to a decrease in rent received because of a cellular tower lease termination at the District's Dekoven tank site totaling $14,837 (-7%), a decrease in meter upgrade installations of $4,001 (-3%), and various other decreased revenues of $6,637 (-40%). Property taxes received increased by $17,190 (7%).

Operating Expenses increased by $309,921 (3%) due to various factors:

- Salaries and benefits increased by $43,989 (2%) due to the following: Net Pension Expense decreased by $34,577 (-19%) due to new reporting requirements (GASB 68), Salaries & Wages increased by $57,218 (4.3%), Workers Compensation Insurance increased by $9,929 (22%), OPEB Expense increased by $28,066 (39%), miscellaneous personnel costs decreased by $16,647 (-23%).
- Maintenance and rehabilitation (M&R) increased by $69,163 due to the following: M&R Operations increased by $99,181 (32%) mainly due to a change in accounting for inventory; Facilities and Equipment decreased by $17,724 (-17%) due to replacement of old vehicles; Fuel decreased by $12,294 (-29%) due to purchase of plug-in hybrid vehicles.
- Purchased Water expense was higher by $58,583 (1%) as the result of a combination of the SFPUC's increased wholesale customer water rates and the District's reduced water purchases and water use reduction from water conservation achievements.
- Utilities increased by $8,950 (3%) due to cost of living increase.

- Professional Services increased by $75,186 due to increased District Counsel costs by $26,249 (31%), District Engineer costs increased by $32,211 (31%), incurred costs for the Water Capacity Charges Update and Rates Study totaling $49,582 (100%), miscellaneous professional services costs decreased by $32,856 (-17%).
- Administrative and other costs decreased by $21,881 due to a decrease in Retiree's Health costs of $23,570 (-30%); miscellaneous administrative costs increased by $1,689 (.3%).
- Depreciation increased by $75,931 (9%) due to increased Fixed Assets of $2,276,609 placed into service.

BUDGETARY HIGHLIGHTS

In its commitment to fiscal responsibility, the District timely adopted an annual budget for Fiscal Year 2014/2015 that projected revenues and expenditures for operations and capital improvements.

CAPITAL ASSETS

During the fiscal year ended June 30, 2015, the District had $16,348,917 (net of accumulated depreciation) invested in capital assets. The following table is presented below to illustrate changes from the prior year:

	June 30, 2015	June 30, 2014	Amount Increase (Decrease)	Percent Increase (Decrease)	June 30, 2013
Land	$ 1,045,264	$ 1,045,264	$ -	0%	$ 1,045,264
Construction in Progress	74,588	1,212,700	(1,138,112)	-94%	567,386
Utility Plant in Service	38,313,237	36,710,048	1,603,189	4%	35,830,229
Vehicles	1,577,427	347,014	1,230,413	355%	219,329
Computer System	192,131	183,105	9,026	5%	147,672
Capital Asset at Cost	41,202,647	39,498,131	1,704,516	4%	37,809,880
Less Accumulated Depreciation	(24,853,730)	(24,228,888)	624,842	3%	(23,421,837)
Capital Assets, Net	$ 16,348,917	$ 15,269,243	$ 1,079,674	7%	$ 14,388,043

RATES AND OTHER ECONOMIC FACTORS

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

REQUESTS FOR FINANCIAL INFORMATION

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

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

BASIC FINANCIAL STATEMENTS

MID-PENINSULA WATER DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2015 AND 2014

	2015	2014
ASSETS		
Current Assets		
Cash and cash equivalents	$ 3,582,734	$ 4,465,380
Accounts receivables	679,566	849,659
Materials and supplies	177,209	190,094
Prepaid expenses and other assets	135,503	92,625
Total Current Assets	4,575,012	5,597,758
Net OPEB asset	-	19,343
Capital assets, net	16,348,917	15,269,243
TOTAL ASSETS	20,923,929	20,886,344
Deferred Outflows:		
Pension related	203,461	-
LIABILITIES		
Current Liabilities		
Accounts payable	185,507	422,373
Accrued expenses	46,879	54,431
Deferred revenue	31,310	-
Total Current Liabilities	263,696	476,804
Long-Term Liabilities		
Net pension liability	1,118,234	-
Net OPEB Liability	4,565	-
Compensated absences	277,881	252,043
Total Liabilities	1,664,376	728,847
Deferred Inflows:		
Pension related	218,718	-
NET POSITION		
Invested in capital assets	16,348,917	14,388,043
Unrestricted	2,895,379	5,769,454
Total Net Position	$ 19,244,296	$ 20,157,497

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

MID-PENINSULA WATER DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE FISCAL YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
OPERATING REVENUES		
Water service charges	$ 9,269,172	$ 9,748,347
Other revenue	70,931	66,004
Total Operating Revenues	9,340,103	9,814,351
OPERATING EXPENSES		
Salaries and benefits	2,258,983	2,214,994
Maintenance and rehabilitation	529,883	460,720
Purchased water	4,160,810	4,102,227
Utilities	312,784	303,834
Professional services	461,682	386,496
Administrative and other	665,813	687,694
Depreciation	912,979	837,048
Total Operating Expenses	9,302,934	8,993,013
OPERATING INCOME (LOSS)	37,169	821,338
NON-OPERATING REVENUES (EXPENSES)		
Rent	194,681	209,518
Property taxes	259,597	242,407
Insurance claim reimbursement	-	4,726
Interest income	9,751	11,662
Completed projects	118,202	122,203
Total Non-Operating Revenues (Expenses)	582,231	590,516
CHANGE IN NET POSITION	619,400	1,411,854
NET POSITION, BEGINNING OF YEAR		
As originally reported	20,157,497	18,745,643
Prior period adjustment	(1,532,601)	-
NET POSITION, BEGINNING OF YEAR, As restated	18,624,896	18,745,643
NET POSITION, END OF YEAR	$ 19,244,296	$ 20,157,497

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

MID-PENINSULA WATER DISTRICT

STATEMENT OF CASH FLOWS

FOR THE FISCAL YEARS ENDED
JUNE 30, 2015 AND 2014

	2015	2014
Cash Flows From Operating Activities		
Reciepts from customers and users	$ 9,470,575	$ 9,770,914
Other operating revenue	70,931	66,004
Payments to suppliers	(6,405,383)	(5,673,967)
Payments related to employees	(2,268,825)	(2,190,965)
Net Cash Flows Provided (Used) by Operating Activities	867,298	1,971,986
Cash Flows From Non-Capital Financing Activities		
Rent received	194,681	209,518
Property taxes received	259,597	242,407
Insurance claim reimbursement	-	4,726
Net Cash Flows Provided (Used) by Non-Capital Financing Activities	454,278	456,651
Cash Flows From Capital and Related Financing Activities		
Acquisition of capital assets	(2,332,175)	(1,718,248)
Cash received for completed projects	118,202	122,203
Net Cash Flows Provided (Used) by Capital & Related Activities	(2,213,973)	(1,596,045)
Cash Flows From Investing Activities		
Interest Income	9,751	11,662
Net Cash Flows Provided (Used) by Investing Activities	9,751	11,662
Net Increase (Decrease) in Cash	(882,646)	844,254
Beginning Cash and Equivalents	4,465,380	3,621,126
Ending Cash and Equivalents	$ 3,582,734	$ 4,465,380

MID-PENINSULA WATER DISTRICT

STATEMENT OF CASH FLOWS

FOR THE FISCAL YEARS ENDED
JUNE 30, 2015 AND 2014

	2015	2014
Reconciliation of Operating Income (loss) to Net Cash Provided (used) by Operating Activities		
Cash Flows from Operating Activities:		
Operating Income (Loss)	$ 37,169	$ 821,338
Adjustments to Reconcile Operating Income (loss) to Net Cash Provided (used) by Operations:		
Depreciation	912,979	837,048
(Increase) Decrease in:		
Accounts receivable	170,093	66,789
Materials and supplies	12,885	17,226
Prepaid expenses and other assets	(42,878)	22,653
Net OPEB asset	19,343	3,689
Deferred outflows	(203,461)	-
Increase (Decrease) in:		
Accounts payable	(236,866)	260,178
Accrued benefits	25,838	20,340
Net OPEB liability	4,565	-
Deferred revenue	31,310	(44,222)
Customer deposits	(7,552)	(33,053)
Net pension liability	(74,845)	-
Deferred inflows	218,718	-
Net Cash Provided (used) by Operating Activities	$ 867,298	$ 1,971,986

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

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

B. BASIS OF ACCOUNTING

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

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

C. CASH AND CASH EQUIVALENTS

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

D. ACCOUNTS RECEIVABLE

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

E. MATERIALS AND SUPPLIES

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

F. DEFERRED REVENUE

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

G. COMPENSATED ABSENCES

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

H. CAPITAL ASSETS

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

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

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

I. REVENUES

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

J. PROPERTY TAXES

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

K. INCOME TAXES

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

L. PENSIONS

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

M. USE OF ESTIMATES

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

2. CASH AND INVESTMENTS

Cash and cash equivalents as of June 30, 2015 and 2014 consisted of the following:

	2015	2014
Petty cash	$ 400	$ 400
Cash drawer	200	200
Cash in bank	193,003	85,401
Local Agency Investment Fund	3,389,131	4,379,379
Total Cash and Cash Equivalents	$ 3,582,734	$ 4,465,380

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

Local Agency Investment Fund

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

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The monies held in the LAIF investment pool are not subject to categorization by risk category. It is also not rated as to credit risk by a nationally recognized statistical rating organization.

Custodial Credit Risk

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

3. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015 is as follows:

	Balance June 30, 2014	Prior Year Adjustments	Additions	Deletions	Balance June 30, 2015
Capital assets not subject to depreciation					
Land	$ 1,045,264	$ -	$ -	$ -	$ 1,045,264
Construction in progress	1,212,700	-	74,588	1,212,700	74,588
Total capital assets not subject to depreciation	2,257,964	-	74,588	1,212,700	1,119,852
Capital assets being depreciated					
Utility plant in service*	36,710,048	(1,807,150)	3,410,339		38,313,237
Vehicles*	347,014	1,807,150	69,995	646,732	1,577,427
Computer and telephone systems	183,105	-	9,026	-	192,131
Total capital assets being depreciated	37,240,167	-	3,489,360	646,732	40,082,795
Less accumulated depreciation for:					
Utility plant in service*	23,958,763	(1,496,972)	858,466		23,320,257
Vehicles*	206,480	1,837,148	16,387	627,659	1,432,356
Computer and telephone systems	63,645	(654)	38,126	-	101,117
Total accumulated depreciation	24,228,888	339,522	912,979	627,659	24,853,730
Total capital assets, net of depreciation	$ 15,269,243	$ (339,522)	$ 2,650,969	$ 1,231,773	$ 16,348,917

* During the year, there was a reclassification of fully depreciated items from Utility plant in service to Vehicles of $1,807,150. In addition, $578,215 of fully depreciated vehicles was removed. There was a prior period adjustment of $339,522 to correct the accumulated depreciation accounts, which is more fully described in Note 10.

4. EMPLOYEE RETIREMENT PLAN

A. Plan Description

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

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

The Plans' provisions and benefits in effect at June 30, 2015, are summarized as follows:

Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.7% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 55	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.7%	1.0% to 2.5%
Required employee contribution rates	7.000%	6.250%
Required employer contribution rates	8.003%	6.237%

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

For the year ended June 30, 2015, the contributions recognized as part of pension expense for the Plan were $203,461.

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

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

Mid-Peninsula Water District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 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, 2013 rolled forward to June 30, 2014 using standard update procedures. Mid-Peninsula Water District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for the Plan as of June 30, 2013 and 2014 was as follows:

Proportion - June 30, 2013	0.03541%
Proportion - June 30, 2014	0.04525%
Change - Increase (Decrease)	0.00984%

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

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

$203,461 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	
2016	$ (50,464)
2017	$ (50,464)
2018	$ (53,274)
2019	$ (64,516)

Actuarial Assumptions – The total pension liabilities in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry-Age Normal Cost
Actuarial Assumptions	
Discount Rate	7.50%
Inflation	2.75%
Payroll Growth Rate	3.00%
Projected Salary Increase	Varies by Entry Age and Service
Investment Rate of Return (1)	7.50%
Mortality	Derived using CalERS' Membership Data for all Funds

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

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. 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 each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent 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 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained from the CalPERS website under the GASB 68 section.

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 percent 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 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in 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 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 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

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

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

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

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
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%

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

	Discount Rate - 1% (6.50%)	Current Discount Rate (7.50%)	Discount Rate + 1% (8.50%)
Plan's Net Pension Liability	$ 1,764,997	$ 1,118,234	$ 581,482

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

C. Payable to the Pension Plan

The District had no outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

5. DEFERRED COMPENSATION PLAN

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

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

6. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

A. Plan Description

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

B. Funding Policy

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

C. Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) expense is calculated based on the annual required contributions (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the District's Annual OPEB Cost for the fiscal year ended June 30, 2015, the amount actually contributed to the plan, and changes in the District's Net OPEB Obligation (Asset):

Annual required Contribution	$ 155,500
Interest on net OPEB obligation	(1,141)
Adjustment to annual required contribution	1,169
Annual OPEB cost (expense)	155,528
Contributions made	(131,620)
Change in net OPEB obligation (asset)	23,908
Net OPEB obligation (asset) - beginning of year	(19,343)
Net OPEB obligation (asset) - end of year	$ 4,565

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

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

Fiscal Year Ended	Annual OPEB Cost	Actual Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
June 30, 2015	$ 155,528	$ 131,620	85%	$ 4,565
June 30, 2014	$ 151,033	$ 147,344	98%	$ (19,343)
June 30, 2013	$ 123,748	$ 78,546	63%	$ (23,032)

D. Funding Status and Funding Progress

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

E. Actuarial Methods and Assumptions

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

The plan's most recent actuarial valuation was performed as of July 1, 2012. In that valuation, the Entry Age Normal Cost Method was used. The actuarial assumptions included a 5.9% discount rate, and a medical trend assumption of 7.0% graded down by 1.0% per year to an ultimate rate of 5.0% after 2 years. These assumptions reflect an implicit 3.0 percent general inflation assumption. The District's unfunded actuarial accrued liability is being amortized as a level dollar amount on an open basis over 30 years.

7. JOINTLY GOVERNED ORGANIZATIONS

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

ACWA JPIA and BAWSCA are governed by a Board consisting of representatives from member agencies. The Board controls the operations, including selection of management and approval of operating budgets, independent of any influence by the member agencies beyond their representation on the Board. Each member agency pays a contribution or assessment commensurate with the level of coverage and services requested and shares surpluses and deficits proportionate to their participation in the joint powers authority. Full financial statements are available separately from ACWA JPIA and BAWSCA. Condensed information for ACWA JPIA and BAWSCA for the years ended September 30, 2014 and June 30, 2014, respectively, is as follows:

	ACWA JPIA September 30, 2014	BAWSCA June 30, 2014
Total Assets	$ 195,584,006	$ 387,484,003
Total Liabilities	$ 107,626,833	$ 377,650,644
Total Net Position	$ 87,957,173	$ 9,833,359
Total Revenues	$ 143,389,669	$ 24,995,269
Total Expenses	$ 149,948,264	$ 17,916,048
Change in Net Position	$ (6,558,595)	$ 7,079,221

8. COMMITMENTS

Purchase commitment

The District entered into an agreement with the City and County of San Francisco to purchase water to be delivered to the District's customers. This is a 25 year agreement that was effective July 1, 2009 and ends on June 30, 2034. The cost of purchasing water through this agreement represented approximately 44% and 46% of the District's operating costs for the years ended June 30, 2015 and 2014, respectively.

Operating lease

The District leases a copier under a 63 month term expiring in September 2015. Minimum future rental payments, under this non-cancelable operating lease, as of June 30, 2015, are as follows:

Year Ending June 30	Amount
2016	$ 12,108

Total lease payments for the years ended June 30, 2015 and 2014 were $53,957 and $51,475, respectively. The District purchased a new copier in July 2015 and did not renew the lease.

9. LEASE REVENUES

The District contracts with five different companies to lease land for communications towers on those properties and has one lease for an office building. The agreements are for multiple years and require monthly payments based on the contracted amounts. Lease revenues for the years ended June 30, 2015 and 2014 totaled $194,681 and $209,518, respectively. A schedule of future lease revenues was not available as of the date of these financial statements.

10. PRIOR PERIOD RESTATEMENT

The District understated the accumulated depreciation on certain assets in prior years. As a result we had to increase the beginning balance for accumulated depreciation and decrease the beginning net position by $339,522. Note 3 shows the adjustments to the various capital asset categories.

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

11. SUBSEQUENT EVENTS

District management has evaluated its June 30, 2015 financial statements for subsequent events through October 14, 2015, the date the financial statements were available to be issued. Management is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

MID-PENINSULA WATER DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS
OTHER POSTEMPLOYMENT BENEFITS

JUNE 30, 2015

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

MID-PENINSULA WATER DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

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

JUNE 30, 2015

	June 30, 2014 [(1)]
Proportion of the net pension liability	0.01797%
Proportionate share of the net pension liability	$ 1,118,234
Covered-employee payroll (2)	$ 1,178,386
Proportionate Share of the net pension liability as percentage of covered-employee payroll	94.90%
Plans fiduciary net position as a percentage of the total pension liability	77.06%
Proportionate share of aggregate employer contributions (3)	$ 101,596

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

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

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

MID-PENINSULA WATER DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CONTRIBUTIONS

JUNE 30, 2015

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

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

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

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

(4) Payroll from prior year ($1,144,064) was assumed to increase by the 3.00 percent payroll growth assumption.

OTHER INDEPENDENT AUDITOR’S REPORT

James Marta & Company LLP
Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

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

Independent Auditor's Report

Board of Directors
Mid-Peninsula Water District
Belmont, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Mid-Peninsula Water District (the "District"), as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 14, 2015.

Internal Control Over Financial Reporting

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

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

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

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Compliance and Other Matters

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

We noted certain matters that we reported to management of the District in a separate letter dated October 14, 2015.

Purpose of this Report

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

James Marta & Company LLP

James Marta & Company LLP
Certified Public Accountants
Sacramento, California
October 14, 2015