

Board of Directors  
Audit Committee  
Padre Dam Municipal Water District  
Santee, California

We have audited the financial statements of the Padre Dam Municipal Water District (the District) for the year ended June 30, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter dated June 6, 2014. Professional standards also require that we communicate to you the following information related to our audit.

**Significant Audit Findings:**

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Padre Dam Municipal Water District are described in Note 1 to the financial statements. As discussed in Note 1e to the basic financial statements, the District changed its method for accounting and reporting certain items previously reported as assets or liabilities during fiscal year 2013-2014 due to the adoption of Governmental Accounting Standards Board's Statement No. 65, "Items Previously Reported as Assets and Liabilities". The adoption of this standard required retrospective application resulting in a \$766,593 reduction of previously reported net position as of the beginning of the year. We noted no transactions entered into by the Padre Dam Municipal Water District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

## **Significant Audit Findings (Continued):**

### *Qualitative Aspects of Accounting Practices (Continued)*

The most sensitive estimates affecting the District's financial statements were:

- a. Management's estimate of the fair market value of investments which is based on market values by outside sources.
- b. The estimated useful lives for capital assets which are based on industry standards.
- c. Management's estimate of the allowance for doubtful accounts is based on historical water and sewer revenues, historical loss levels, and an analysis of the collectability of individual accounts.
- d. The funded status and funding progress of the Other Post-Employment Benefits is based on an actuarial valuation.
- e. The funded status and funding progress of the public defined benefit plan with CalPERS is based on an actuarial valuation.

We evaluated the key factors and assumptions used to develop these estimates in determining that they were reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were reported in Note 1.k. regarding depreciation expense, Note 7 regarding the defined benefit pension plan and Note 8 regarding Other Post-Employment Benefits.

The financial statement disclosures are neutral, consistent, and clear.

### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Adjustments*

Professional standards require us to accumulate all known and likely adjustments identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The following material adjustments detected as a result of the audit procedures were corrected by management:

- 1) Accounts Receivable and Operating Revenue were decreased by \$818,015 for an over accrual of unbilled accounts receivable recognized as revenue.
- 2) Accounts receivable decreased by \$609,329, revenue decreased by \$562,746 and customer deposit liabilities decreased by \$46,583 for an over accrual of customer billings.

The attached schedule summarizes uncorrected adjustments of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

## **Significant Audit Findings (Continued):**

### *Disagreements with Management*

For the purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated February 10, 2015.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Padre Dam Municipal Water District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Padre Dam Municipal Water District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

## **Other Matters**

We applied certain limited procedures to Management's Discussion and Analysis, Schedule of Funding Progress for PERS and Schedule of Funding Progress for the Other Post-Employment Benefit Plan, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the following supplementary information: Supplementary Schedule of Income (Loss) Before Contributions by Fund Services, the Supplementary Schedule of Income (Loss) Before Contributions (Budget to Actual), and Schedule of Change in Cash, Cash Equivalents and Investments, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

## **Restriction on Use**

This information is intended solely for the use of the Board of Directors, Audit Committee and management of the Padre Dam Municipal Water District and is not intended to be, and should not be, used by anyone other than these specified parties.

*White Nelson Dick Evans LLP*

February 10, 2015  
Carlsbad, California

Padre Dam Municipal Water District  
Schedule of Uncorrected Adjustments  
June 30, 2014

<u>Account Description</u>	<u>Debit</u>	<u>Credit</u>
Receivables- All Others	252,411.29	
Unearned Revenue		252,411.29
To reclassify receipts in advance of income earned as unearned revenue.		
Unbilled Accounts Receivable	49,394.66	
IDD Past Debt S/C Retail		1,728.11
IAC Retail Western/Eastern		47,666.55
To book unbilled services as revenue at 6/30/14.		
Accounts Receivable – Customer Billings	81,256.41	
Deposits – Customer Wtr & Swr		81,256.41
To reclassify receipts in advance of income earned as deposit liabilities.		

**PADRE DAM MUNICIPAL WATER DISTRICT**

**FINANCIAL STATEMENTS**

**WITH REPORT ON AUDIT  
BY INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANTS**

**JUNE 30, 2014 AND 2013**

**JUNE 30, 2014 and 2013**

	<u>Page</u>
Independent Auditors' Report	1 - 2
Management's Discussion and Analysis (Required Supplementary Information)	3 - 8
Basic Financial Statements:	
Statements of Net Position	9 - 10
Statements of Revenues, Expenses and Changes in Net Position	11
Statements of Cash Flows	12 - 13
Notes to Basic Financial Statements	14 - 37
Required Supplementary Information:	
Schedule of Funding Progress for PERS	38
Schedule of Funding Progress for OPEB	38
Supplementary Information:	
Schedule of Income (Loss) Before Contributions by Fund Services For the Year Ended June 30, 2014	39
Schedule of Income (Loss) Before Contributions by Fund Services For the Year Ended June 30, 2013	40
Schedule of Income (Loss) Before Contributions (Budget to Actual) For the Year Ended June 30, 2014	41
Schedule of Income (Loss) Before Contributions (Budget to Actual) For the Year Ended June 30, 2013	42
Schedule of Change in Cash, Cash Equivalents and Investments For the Year Ended June 30, 2014	43
Schedule of Change in Cash, Cash Equivalents and Investments For the Year Ended June 30, 2013	44

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Padre Dam Municipal Water District  
Santee, California

We have audited the accompanying financial statements of Padre Dam Municipal Water District as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Padre Dam Municipal Water District as of June 30, 2014 and 2013, and the changes in financial position and cash flows there of for the years then ended in accordance with accounting principles generally accepted in the United States of America, as well as the accounting systems prescribed by the California State Controller's Office and California regulations governing Special Districts.



## **Emphasis of a Matter**

As discussed in Note 1e to the basic financial statements, the District has changed its method for accounting and reporting certain items previously reported as assets or liabilities during fiscal years 2014 and 2013 due to the adoption of Governmental Accounting Standards Board's Statement No. 65, "*Items Previously Reported as Assets and Liabilities.*" The adoption of this standard required retrospective application resulting in a \$766,593 and \$599,922 reduction of previously reported net position as of July 1, 2013 and 2012, respectively. Our opinion is not modified with respect to this matter.

## **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 3 - 8, and the schedules of funding progress for the District's Defined Benefit Pension Plan and Other Post-Employment Benefit Plan on page 38 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 an opinion on the financial statements that collectively comprise the District's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information 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 on it.

*White Nelson Dick Evans LLP*

February 10, 2015  
Carlsbad, California

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Our discussion and analysis of Padre Dam Municipal Water District's (District) financial performance provides an overview of the District's financial activities for the years ended June 30, 2014 and 2013. Please read it in conjunction with the District's financial statements, which follow this section. The year ended June 30, 2012 is provided for reference.

**Financial Statements**

This discussion and analysis provides an introduction and a brief description of the District's financial statements, including the relationship of the statements to each other and the significant differences in the information they provide. The District's financial statements include four components:

- Statements of Net Position
- Statements of Revenues, Expenses and Changes in Net Position
- Statements of Cash Flows
- Notes to Basic Financial Statements

The statement of net position includes all the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between the four reported as net position. Net position may be displayed in the categories:

- Net Investment in Capital Assets
- Restricted
- Unrestricted

The statement of net position 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.

The statement of revenues, expenses and changes in net position presents information which shows how the District's net position changed during the year. All of the current year's revenues and expenses are recorded when the underlying transaction occurs, regardless of the timing of the related cash flows. The statement of revenues, expenses and changes in net position measures the success of the District's operations over the past year and determines whether the District has recovered its costs through current services and other revenues.

The statement of cash flows provides information regarding the District's cash receipts and cash disbursements during the year. This statement may report cash activity in four categories:

- Operating
- Noncapital and related financing
- Capital and related financing
- Investing

This statement differs from the statement of revenues, expenses and changes in net position because it accounts only for transactions that result in cash receipts or cash disbursements.

The notes to the financial statements provide a description of the accounting policies used to prepare the financial statements and present material disclosures required by generally accepted accounting principles that are not otherwise present in the financial statements.

**PADRE DAM MUNICIPAL WATER DISTRICT      MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Financial Highlights**

For the year ended June 30, 2014, the District's total net position increased by \$12,980,950. The District's operating revenues of \$63,943,627 increased by \$4,506,818 while operating expenses of \$55,703,752 increased by \$3,297,104. Non-operating revenues increased by \$340,168. Non-operating expenses decreased by \$448,735.

**Financial Analysis of the Financial Statements**

**Net Position**

The District's net position at June 30, 2014 totaled \$242,776,392 compared with \$229,795,442 at June 30, 2013. The increase in net position is primarily attributed to operating income of \$8,239,875, nonoperating revenues of \$3,121,507, capital contributions of \$4,350,288, and is offset by interest expense of \$2,730,720. During the fiscal year ending June 30, 2014, the District implemented GASB Statement No. 65. Due to the implementation of this statement, bond issuance costs and certain amounts classified as deferred amounts on refunding have been restated as expense. Fiscal year 2012/13 balances have been restated to reflect implementation of GASB Statement No. 65. Additional information on this prior period adjustment can be found in note 13 of the notes to financial statements. The following is a summary of the District's statement of net position:

	<u>June 30, 2014</u>	<u>(As Restated) 6/30/2013</u>	<u>June 30, 2012</u>
<b>Assets</b>			
Current Assets	\$ 56,639,644	\$ 44,258,414	\$ 36,674,176
Noncurrent Assets:			
Restricted Assets	25,575,762	28,467,442	31,798,207
Capital Assets, net of depreciation	<u>243,741,035</u>	<u>240,517,309</u>	<u>235,009,735</u>
Total Assets	<u>325,956,441</u>	<u>313,243,165</u>	<u>303,482,118</u>
<b>Deferred Outflows of Resources</b>	<u>153,268</u>	<u>172,711</u>	<u>711,937</u>
<b>Liabilities</b>			
Current Liabilities	11,324,252	10,680,980	10,771,191
Due to Other Agencies	3,118,760	3,118,760	3,118,760
Long-Term Debt	65,893,150	68,963,203	71,571,852
Other Noncurrent Liabilities	<u>2,997,155</u>	<u>857,491</u>	<u>1,305,939</u>
Total Liabilities	<u>83,333,317</u>	<u>83,620,434</u>	<u>86,767,742</u>
<b>Net Position</b>			
Net investment in capital assets	188,558,067	186,273,611	182,613,016
Restricted for future capital projects	4,684,041	5,856,343	2,986,011
Restricted for future debt service	4,449,562	4,449,040	4,467,292
Unrestricted	<u>45,084,722</u>	<u>33,216,448</u>	<u>27,359,994</u>
Total Net Position	<u>\$ 242,776,392</u>	<u>\$ 229,795,442</u>	<u>\$ 217,426,313</u>

**Financial Analysis of the Financial Statements (Continued)**

**Revenues, Expenses and Changes in Net Position**

The District reported a change in net position of \$12,980,950 for the year ended June 30, 2014, an increase of \$11,899 compared to the year ended June 30, 2013. Operating revenues were higher than the prior year by \$4,506,818 mostly due to rate increases for water and wastewater operations as well as an increase in campground revenues. There has been a decrease in the amount of water sold over the prior few years due to lower consumption from conservation. However, current year water sales were higher than the prior year by 5.0%. Operating expenses were \$3,297,104 higher than the prior year due to a \$1,324,917 increase in water and sewer services direct costs, a \$1,770,078 increase in internal operating expenses and a \$202,109 increase in depreciation expense as a result of capital asset additions. Nonoperating revenues increased by \$340,168 and non-operating expenses decreased by \$448,735. During the fiscal year ending June 30, 2014, the District implemented GASB Statement No. 65. Due to the implementation of this statement, bond issuance costs and certain amounts classified as deferred amounts on refunding have been restated as expense. Fiscal year 2012/13 expenses have been restated to reflect implementation of GASB Statement No. 65. The following is a summary of the District's statement of revenues, expenses and changes in net position:

	<u>June 30, 2014</u>	(As Restated) <u>6/30/2013</u>	<u>June 30, 2012</u>
Operating Revenues	\$ 63,943,627	\$ 59,436,809	\$ 53,832,988
Nonoperating Revenues	<u>3,121,507</u>	<u>2,781,339</u>	<u>2,721,632</u>
Total Revenues	<u>67,065,134</u>	<u>62,218,148</u>	<u>56,554,620</u>
Operating Expenses	55,703,752	52,406,648	51,241,740
Nonoperating Expenses	<u>2,730,720</u>	<u>3,179,455</u>	<u>9,064,654</u>
Total Expenses	<u>58,434,472</u>	<u>55,586,103</u>	<u>60,306,394</u>
Income (Loss) Before Capital Contributions	8,630,662	6,632,045	(3,751,774)
Capital Contributions	4,350,288	6,337,006	13,800,374
Changes in Net Position	<u>12,980,950</u>	<u>12,969,051</u>	<u>10,048,600</u>
Net Position at Beg of Year (as originally stated)	229,795,442	217,426,313	206,136,136
Prior Period Adjustment	-	(599,922)	1,241,577
Net Position at Beg of Year (as restated)	<u>229,795,442</u>	<u>216,826,391</u>	<u>207,377,713</u>
Net Position at End of Year	<u>\$ 242,776,392</u>	<u>\$ 229,795,442</u>	<u>\$ 217,426,313</u>

**Capital Assets**

At June 30, 2014, the District had invested \$243,741,035 in capital assets, net of accumulated depreciation of \$99,648,450, including land, franchises and water rights, a water system, sewer system, water recycling system, buildings, equipment, park and campgrounds and construction-in-progress (CIP). This amount represents an increase of \$3,223,726, net of depreciation, over the prior year.

**Capital Assets (Continued)**

The following is a summary of the capital assets at June 30, 2014 and 2013, respectively:

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Land, franchises and water rights	\$ 898,511	\$ 898,511
Water system	208,074,033	196,768,665
Sewer system	47,982,841	46,219,420
Water recycling system	26,387,034	26,287,082
Parks and campgrounds	20,159,318	19,051,613
Buildings	14,921,429	14,921,429
Equipment	9,986,208	8,151,118
Construction-in-progress	14,980,111	21,500,239
Total	343,389,485	333,798,077
Less: Accumulated depreciation	(99,648,450)	(93,280,768)
Net Capital Assets	<u>\$ 243,741,035</u>	<u>\$ 240,517,309</u>

Significant additions to CIP for the year ended June 30, 2014 include:

Financial Computer Syst Upgrade (CIS)	\$ 855,482
Prospect Ave. Widening (Cuyamaca to Magnolia)	592,303
Emergency Generator - Flinn Springs PS	564,415
Rios Canyon Pump Station Emergency Generator Set	521,658
S Lakes Pk - Sycamore Restroom Repairs	452,177
ESA Secondary Supply Connection	380,567
CSC Phase II Ops	352,634
Braverman Sewer Repairs, Phase 2	322,247
WRF Chlorine Trolley Modification	321,681
Financial Computer Syst Upgrade (FIS)	315,754
WSA Valve Replacement Program	311,241
WSA Valve Replacement Program (2013/14)	281,509
ESA Secondary Connection Land Acq - El Dorado	280,526
Sunrise Reservoir Erosion Control	238,616
WSA Polyservice Replacement	205,882

Additional information on the District's capital assets can be found in notes 1 and 4 of the notes to financial statements.

**PADRE DAM MUNICIPAL WATER DISTRICT      MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Long-Term Debt**

At June 30, 2014, the District had \$68,709,858 in long-term debt, including certificates of participation, a note payable, a capital lease, revenue bonds, unamortized premiums/discounts and other long-term debt. Long term debt decreased \$2,958,336 primarily due to principal payments made on debt. The following is a summary of the long-term debt at June 30, 2014 and 2013, respectively:

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Certificates of participation	\$ 51,550,000	\$ 52,165,000
Notes payable	2,919,834	3,249,346
Capital leases	3,390,658	3,921,969
Revenue bonds	6,105,000	7,225,000
Other long-term debt	<u>1,292,145</u>	<u>1,401,888</u>
Total long-term debt	65,257,637	67,963,203
Add: unamortized premiums/discounts	<u>3,452,221</u>	<u>3,704,991</u>
	<u><u>\$ 68,709,858</u></u>	<u><u>\$ 71,668,194</u></u>

Additional information on the District's long-term debt can be found in note 5 of the notes to financial statements.

**Conditions Affecting Current Financial Position**

Water sales increased 2.5% from the year ended June 30, 2012 to the year ended June 30, 2013 and 5.0% from the year ended June 30, 2013 to the year ended June 30, 2014. Prior to 2012, water sales had been lower for several years due to drought and lower consumption due to conservation. In January 2014, Governor Jerry Brown declared a drought emergency and called on California residents to conserve; management cannot accurately predict how this drought will affect water sales and the cost of operations in the future.

In June 2012, the Board approved the second Five Year Business Plan & Budget that covered fiscal years 2013-2017. The budgeted expenditures for preventative maintenance were \$3M per year and capital replacement and improvements were expected to average \$13.9 million per year. Annual rate increases were approved by the Board to cover the costs of regular operations and capital improvements. The average annual approved rate increases were 4.75% for water and 1.5% for sewer. At the same time the Board approved a pass through ordinance authorizing the pass through of rate increases from external agencies. For FY 2013/14, the pass through of costs from suppliers resulted in an average 2.59% increase in water rates and 0% for sewer.

In 2012, the District hired an independent rate consultant, HDR, to perform a cost of service study. HDR found the District's rate structures to be sound but recommended changes to simplify the billing structure for water. Their proposed water and sewer rate adjustments and corresponding rate designs were developed using generally accepted rate setting methodologies and were based on accounting, budgeting, and customer record information provided by the District. The proposed rates were approved by the Board and are intended to provide adequate revenue to maintain the water and sewer utility system in a sustainable manner.

**Contacting the District's Financial Manager**

This financial report is designed to provide Padre Dam Municipal Water District's customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Padre Dam Municipal Water District Chief Financial Officer.

**PADRE DAM MUNICIPAL WATER DISTRICT**STATEMENTS OF NET POSITION  
June 30, 2014 and 2013

	<b>2014</b>	<b>(As Restated) 2013</b>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents (Notes 1 and 2)	\$ 25,559,407	\$ 22,607,052
Restricted cash and cash equivalents (Notes 1 and 2)	387,097	328,260
Investments (Notes 1 and 2)	22,525,172	11,604,283
Accounts receivable, net (Note 1)	6,683,222	8,279,605
Property taxes receivable, net (Note 1)	110,383	119,481
Accounts receivable - other	76,416	181,399
Accrued interest receivable	41,926	19,851
Inventory	1,028,765	962,799
Prepaid expenses	227,256	155,684
Total Current Assets	<u>56,639,644</u>	<u>44,258,414</u>
Noncurrent Assets:		
Restricted Assets (Notes 1, 2 and 3):		
Cash and cash equivalents	10,779,794	9,068,550
Investments	14,781,537	19,394,374
Accrued interest receivable	14,431	4,518
Total Restricted Assets	<u>25,575,762</u>	<u>28,467,442</u>
Capital Assets (Note 4):		
Land, franchise and water rights	898,511	898,511
Construction in progress	14,980,111	21,500,239
Capital assets, net of depreciation	227,862,413	218,118,559
Total Capital Assets, Net of Depreciation	<u>243,741,035</u>	<u>240,517,309</u>
Total Noncurrent Assets	<u>269,316,797</u>	<u>268,984,751</u>
Total Assets	<u>325,956,441</u>	<u>313,243,165</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred amount on refunding	<u>153,268</u>	<u>172,711</u>
Total Deferred Outflows of Resources	<u>153,268</u>	<u>172,711</u>

(Continued)

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



**PADRE DAM MUNICIPAL WATER DISTRICT**STATEMENTS OF NET POSITION (Continued)  
June 30, 2014 and 2013

	<b>2014</b>	<b>(As Restated) 2013</b>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable	\$ 5,249,093	\$ 4,819,525
Accrued expenses and other liabilities	2,100,862	1,985,335
Accrued interest payable	770,492	842,869
Current portion of long-term debt	2,816,708	2,704,991
Liabilities payable from restricted assets:		
Deposits and advances on construction	387,097	328,260
Total Current Liabilities	<u>11,324,252</u>	<u>10,680,980</u>
Noncurrent Liabilities:		
Due to Other Agencies	<u>3,118,760</u>	<u>3,118,760</u>
Long-Term Debt (Note 5):		
Capital lease obligations	2,834,897	3,390,658
Certificates of participation	53,672,471	54,443,235
Note payable	2,584,224	2,920,409
Revenue Bonds	5,624,749	6,916,756
Other long-term debt	<u>1,176,809</u>	<u>1,292,145</u>
Total Long-Term Debt	<u>65,893,150</u>	<u>68,963,203</u>
Other Noncurrent Restricted Liabilities:		
Prepaid capacity fees (Note 6)	2,983,157	843,496
Accrued pension benefits and other	13,998	13,995
Total Other Noncurrent Restricted Liabilities	<u>2,997,155</u>	<u>857,491</u>
Total Noncurrent Liabilities	<u>72,009,065</u>	<u>72,939,454</u>
Total Liabilities	<u>83,333,317</u>	<u>83,620,434</u>
<b>NET POSITION</b>		
Net investment in capital assets	188,558,067	186,273,611
Restricted for future capital projects	4,684,041	5,856,343
Restricted for debt service	4,449,562	4,449,040
Unrestricted	<u>45,084,722</u>	<u>33,216,448</u>
Total Net Position	<u>\$ 242,776,392</u>	<u>\$ 229,795,442</u>

**PADRE DAM MUNICIPAL WATER DISTRICT**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
For the years ended June 30, 2014 and 2013

	<b>2014</b>	<b>(As Restated) 2013</b>
<b>OPERATING REVENUES</b>		
Water operations	\$ 43,035,859	\$ 39,199,744
Wastewater operations	16,016,064	15,544,162
Park operations	4,891,704	4,692,903
Total Operating Revenues	<u>63,943,627</u>	<u>59,436,809</u>
<b>OPERATING EXPENSES</b>		
Water operations	38,137,991	35,178,988
Wastewater operations	13,294,246	13,198,786
Park operations	4,271,515	4,028,874
Total Operating Expenses	<u>55,703,752</u>	<u>52,406,648</u>
Operating Income	<u>8,239,875</u>	<u>7,030,161</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment income	182,994	39,269
Restricted investment income	165,964	125,504
Taxes and assessments	2,769,104	2,612,561
Gain on sale of assets	3,445	4,005
Interest expense	(2,730,720)	(2,980,215)
Other nonoperating	-	(199,240)
Total Nonoperating Revenues (Expenses)	<u>390,787</u>	<u>(398,116)</u>
Income Before Capital Contributions	8,630,662	6,632,045
Capital Contributions	<u>4,350,288</u>	<u>6,337,006</u>
Changes in Net Position	<u>12,980,950</u>	<u>12,969,051</u>
Net Position, Beginning of Year, As Originally Stated	229,795,442	217,426,313
Prior period adjustment (Note 13)	-	(599,922)
Net Position, Beginning of Year, as Restated	<u>229,795,442</u>	<u>216,826,391</u>
Net Position, End of Year	<u>\$ 242,776,392</u>	<u>\$ 229,795,442</u>

**PADRE DAM MUNICIPAL WATER DISTRICT**STATEMENTS OF CASH FLOWS  
For the years ended June 30, 2014 and 2013

	<b>2014</b>	<b>(As Restated) 2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 67,784,654	\$ 58,322,686
Payments for operating goods and services	(33,390,366)	(30,313,867)
Payments to employees	(15,024,258)	(15,487,702)
Net Cash Provided (Used) by Operating Activities	<u>19,370,030</u>	<u>12,521,117</u>
<b>CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Receipts from taxes and assessments	<u>2,778,202</u>	<u>2,628,275</u>
Net Cash Provided (Used) by Noncapital and Related Financing Activities	<u>2,778,202</u>	<u>2,628,275</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	(8,033,254)	(7,601,616)
Net proceeds from issuance of long-term debt	-	8,045,652
Principal payments on long-term debt	(2,705,565)	(10,423,745)
Bond issuance costs paid	-	(272,029)
Proceeds from capital contributions	2,337,085	1,810,426
Interest paid, net of amounts capitalized	(3,036,425)	(3,110,332)
Proceeds from sale of assets	<u>3,445</u>	<u>4,005</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(11,434,714)</u>	<u>(11,547,639)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(12,782,456)	(9,016,825)
Proceeds from sale and maturities of investments	6,532,996	12,667,752
Interest received on investments	<u>258,378</u>	<u>198,127</u>
Net Cash Provided (Used) by Investing Activities	<u>(5,991,082)</u>	<u>3,849,054</u>
Net Increase (Decrease) in Cash and Cash Equivalents	4,722,436	7,450,807
Cash and Cash Equivalents, Beginning of Year	<u>32,003,862</u>	<u>24,553,055</u>
Cash and Cash Equivalents, End of Year	<u>\$ 36,726,298</u>	<u>\$ 32,003,862</u>

(Continued)

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

12

**PADRE DAM MUNICIPAL WATER DISTRICT**STATEMENTS OF CASH FLOWS (Continued)  
For the years ended June 30, 2014 and 2013

	<u>2014</u>	<u>(As Restated) 2013</u>
<b>Reconciliation of operating income to net cash flows provided by operating activities:</b>		
Operating income	\$ 8,239,875	\$ 7,030,161
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	6,822,731	6,620,622
(Increase) decrease in accounts receivable	1,596,383	(671,714)
(Increase) decrease in accounts receivable - other	104,983	5,880
(Increase) decrease in inventories	(65,966)	175,074
(Increase) decrease in prepaid expenses	(71,572)	(11,901)
Increase (decrease) in accounts payable	429,568	(236,966)
Increase (decrease) in accrued expenses and other liabilities	115,527	41,592
Increase (decrease) in deposits and advances on construction	58,837	16,817
Increase (decrease) in accrued pension benefits and other	2,139,664	(448,448)
	<u>\$ 19,370,030</u>	<u>\$ 12,521,117</u>
<b>Financial Statement Classification</b>		
<b>Cash and cash equivalents</b>		
Current assets:		
Cash and cash equivalents	\$ 25,559,407	\$ 22,607,052
Restricted cash and cash equivalents	387,097	328,260
Noncurrent assets:		
Restricted cash and cash equivalents	10,779,794	9,068,550
	<u>36,726,298</u>	<u>32,003,862</u>
<b>Investments</b>		
Current assets:		
Investments	22,525,172	11,604,283
Noncurrent assets:		
Restricted investments	14,781,537	19,394,374
	<u>37,306,709</u>	<u>30,998,657</u>
	<u>\$ 74,033,007</u>	<u>\$ 63,002,519</u>
<b>Supplemental Disclosures:</b>		
Noncash Investing and Financing Activities		
Contributed Capital for Capital Assets	\$ 1,616,812	\$ 3,754,522
Amortization Related to Long-Term Debt	\$ (233,328)	\$ (143,899)
Unrealized gain on Investments	\$ 43,340	\$ 28,708

June 30, 2014 and 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

a. Reporting Entity:

The Padre Dam Municipal Water District (the "District") was organized November 23, 1955, (as Rio San Diego Municipal Water District) pursuant to the Municipal Water District Law of 1911, Division 20 of the Water Code, as the result of an election held December 2, 1952. The name changed to Padre Dam Municipal Water District effective January 1, 1977.

Santee County Water District (formed in 1956 pursuant to the County Water District Law, Division 12 of the Water Code) operated within the territory of the District. As the result of an election held on November 2, 1976, Santee County Water District dissolved and its functions and operations were assumed by the District on December 31, 1976.

The communities of Alpine, Crest, and Harbison Canyon (Eastern Service Area) were annexed to the District in 1961. The area within Crest Public Utility District was annexed in 1985 when that agency dissolved.

The District purchases its water supply from the San Diego County Water Authority.

The District sends its wastewater to City of San Diego METRO for treatment.

The District produces recycled water for construction and irrigation.

The District owns and operates Santee Lakes Recreation Preserve.

The District is comprised of two geographically distinct Service Areas:

Western Service Area

Western Service Area provides retail potable water, recycled water and sewer services to the community of Santee. The Santee Lakes Recreation Preserve and the Santee Water Reclamation Facility are located within this service area.

Eastern Service Area

Eastern Service Area provides retail potable water service to the communities of Alpine, Crest and Harbison Canyon.

b. Basis of Presentation:

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for governmental accounting financial reporting purposes.

The District is accounted for as an enterprise fund. An enterprise fund is a proprietary type fund used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

c. Measurement Focus and Basis of Accounting:

“Measurement Focus” is a term used to describe *which* transactions are recorded within the various financial statements. “Basis of Accounting” refers to *when* transactions are recorded regardless of the measurement focus applied. The accompanying financial statements are reported using the “economic resources measurement focus,” and the “accrual basis of accounting.” Accordingly, all assets, deferred outflows of resources, liabilities (whether current or noncurrent) and deferred inflows of resources are included on the Statements of Net Position. The Statements of Revenues, Expenses, and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The District distinguishes operating revenues and expenses from nonoperating revenues and expenses. Operating revenues are generated by water sales, wastewater services and park services while operating expenses are directly related to furnishing those services. Nonoperating revenues and expenses are not directly associated with the normal business of supplying water, wastewater treatment services and park services.

When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, and then unrestricted resources as necessary.

d. Net Position:

Net position of the District is classified into three components: (1) net investment in capital assets (2) restricted net position, and (3) unrestricted net position. These classifications are defined as follows:

Net Investment in Capital Assets

This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of notes or borrowing that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets.

Restricted Net Position

This component of net position consists of net position whose use is constrained by external sources such as creditors (i.e. debt covenants), grantors, contributors, laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position

This component of net position consists of net position that does not meet the definition of “net investment in capital assets” or “restricted net position”.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

## e. New Accounting Pronouncements:

**Implemented**

- GASB 65 - "*Items Previously Reported as Assets and Liabilities*". This statement established accounting and financial reporting standards that reclassify as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. Due to the implementation of this statement, debt issuance costs were eliminated and are recognized as an expense in the period incurred. Accounting changes adopted to conform to the provisions of this statement should be applied retroactively. The result of this implementation of this standard was to decrease the Net Position at July 1, 2013 and 2012 by \$766,593 and \$599,922, respectively, which is the amount of unamortized debt issuance costs at July 1, 2013 and July 1, 2012, respectively.
- GASB 66 - "*Technical Corrections, an amendment of GASB Statement No. 10 and Statement No. 62*", required to be implemented in the current fiscal year did not impact the District.
- GASB 70 - "*Accounting and Financial Reporting for Nonexchange Financial Guarantees*", required to be implemented in the current fiscal year did not impact the District.

**Pending Accounting Standards:**

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

- GASB 68 - "*Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*", effective for the fiscal years beginning after June 15, 2014.
- GASB 69 - "*Government Combinations and Disposals of Government Operations*", effective for periods beginning after December 15, 2013.
- GASB 71 - "*Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB No. 68*", effective for the fiscal years beginning after June 15, 2014.

## f. Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has one item that qualifies for reporting in this category: *deferred amount on refunding*.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The District does not have any type of these items as of June 30, 2014 or June 30, 2013.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

g. Statements of Cash Flows:

For purposes of the statements of cash flows the District considers all financial instruments purchased with a maturity of three months or less to be cash and cash equivalents.

h. Investments:

Investments are stated at their fair value, which represents the quoted or stated market value. Investments that are not traded on a market, such as investments in external pools, are valued based on the stated fair value as represented by the external pool.

i. Accounts Receivable and Allowance for Doubtful Accounts:

Accounts receivable are from billed and unbilled customer accounts and total \$6,683,222 and \$8,279,605 at June 30, 2014 and 2013, respectively. Management believes that all uncollectible accounts have been identified and written-off. Due to historically low write-offs of water and sewer revenue billed, no allowance has been established as of June 30, 2014 and 2013.

j. Inventory:

Inventory consists primarily of materials and supplies used in the construction and maintenance of capital assets. Inventory is valued at cost using a weighted average cost method. Inventory items are charged to expense or work-in-process at the time that individual items are withdrawn from inventory or consumed.

k. Capital Assets:

The District records the acquisition of capital assets and additions, improvements and other capital outlays that significantly extend the life of an asset at historical cost. Contributed assets are recorded at their fair market value at the date of donation. Self-constructed assets are recorded in the amount of direct labor, material, and allocated overhead. District policy has set the capitalization threshold for reporting capital assets at \$5,000 and an estimated useful life of greater than three years.

The District capitalizes interest on construction projects up to the point in time that the project is substantially completed. Capitalized interest is included in the cost of the assets and is depreciated on the straight-line basis over the estimated useful life of such assets.

Depreciation is calculated on the straight-line method over the estimated useful life of an asset, which ranges from three to one hundred years as follows:

Water system	10 - 75 years
Wastewater system	10 - 100 years
Water recycling system	5 - 50 years
Park and campgrounds	5 - 30 years
Buildings	20 - 25 years
Equipment	3 - 10 years



1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

k. Capital Assets (continued):

Depreciation totaled \$6,822,731 and \$6,620,622, for the years ended June 30, 2014 and 2013, respectively. Depreciation expense has been allocated to Water Operations, Wastewater Operations and Park Operations on the Statements of Revenues, Expenses and Changes in Net Position. The allocation of depreciation expense for the years ended June 30, 2014 and 2013 are as follows:

	2014	2013
Water Operations	\$ 5,123,748	\$ 4,935,188
Wastewater Operations	971,951	963,001
Park Operations	727,032	722,433
	<u>\$ 6,822,731</u>	<u>\$ 6,620,622</u>

l. Compensated Absences:

Vested or accumulated vacation and sick leave are recorded as expenses and liabilities as benefits accrue to employees. At June 30, 2014 and 2013 accumulated vacation and sick leave totaled \$1,646,245 and \$1,591,037 respectively, and is included in accrued expenses and other liabilities on the statements of net position.

m. Restricted Assets and Liabilities:

Certain current liabilities have been classified as current liabilities payable from restricted assets as they will be funded from restricted assets.

n. Use of Estimates:

The financial statements are prepared in conformity with accounting principles generally accepted in the United States of America and, accordingly, include amounts that are based on management’s best estimates and judgments. Actual results could differ from those estimates.

o. Property Taxes:

Property taxes are billed by the County of San Diego to property owners. The District takes into account differences in the property taxes assessed in the two service areas when establishing its water rates for each area. The District’s property tax calendar for the fiscal year ended June 30, 2014 was as follows:

Lien Date:	January 1
Levy Date:	July 1
Due Date:	First Installment - November 1 Second Installment - February 1
Delinquent Date:	First Installment - December 10 Second Installment - April 10

Property taxes receivable of \$110,383 and \$119,481 as of June 30, 2014 and 2013, respectively, have been reported net of an allowance for estimated uncollectible taxes in the amount of \$6,097 and \$6,717, respectively.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

p. Amortization of Deferred Charges, Bond Discounts and Premiums Costs:

Deferred charges, bond discounts, and premiums are being amortized over the periods of debt maturities. Amortization of deferred charges, bond discounts, and premiums totaled \$233,328 and \$143,899 for the years ended June 30, 2014 and 2013, respectively, and is included in interest expense on the statements of revenues, expenses and changes in net position.

q. Interest Expense:

The District incurs interest charges on long-term debt. Interest expense for the years ended June 30, 2014 and 2013, is as follows:

	<u>2014</u>	<u>2013</u>
Amount Expensed	\$ 2,730,720	\$ 2,980,215
Amount Capitalized as a Cost of Construction Projects	<u>108,608</u>	<u>131,860</u>
Total Interest	<u>\$ 2,839,328</u>	<u>\$ 3,112,075</u>

2. CASH AND INVESTMENTS:

Cash and investments at June 30, 2014 and 2013 are classified in the accompanying financial statements as follows:

Statements of Net Position:	<u>2014</u>	<u>2013</u>
Current Assets:		
Cash and cash equivalents	\$ 25,559,407	\$ 22,607,052
Restricted cash and cash equivalents	387,097	328,260
Investments	22,525,172	11,604,283
Noncurrent Assets:		
Restricted:		
Cash and cash equivalents	10,779,794	9,068,550
Investments	<u>14,781,537</u>	<u>19,394,374</u>
Total cash and investments	<u>\$ 74,033,007</u>	<u>\$ 63,002,519</u>

Cash and investments consist of the following:

Cash on hand	\$ 2,800	\$ 2,800
Deposits with financial institutions	25,355,892	22,707,358
Investments	<u>48,674,315</u>	<u>40,292,361</u>
Total cash and investments	<u>\$ 74,033,007</u>	<u>\$ 63,002,519</u>

GASB Statement No. 9 defines cash equivalents and investments for presentation in the financial statements (Statement of Net Position and Statement of Cash Flows), and GASB Statement No. 3 defines cash equivalents and investments for presentation in the notes to the financial statements. GASB Statement No. 9 classifies investments with an original maturity of three month or less when purchased and investment pools with no withdrawal penalty as cash equivalents. GASB Statement No. 3 classifies both of these items as investments for note disclosure.

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 for the District by the California Government Code (or the District’s investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District’s investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	5 years	None	None
U.S. Government Sponsored Entities	5 years	None	None
Banker’s Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Certificates of Deposit	2 years	30%	None
Repurchase Agreements	90 days	None	None
Reverse Repurchase Agreements	90 days	20% of base value	None
Medium-Term Notes	5 years	30%	None
Money Market Mutual Funds	N/A	20%	None
Local Agency Investment Fund (LAIF)**	N/A	None	None
San Diego County Pooled Investment Fund	N/A	None	None
California Asset Management Program (CAMP)	N/A	None	None

\*\*Maximum investment in LAIF is \$30 million per California Government Code.

Investments Authorized by Debt Agreements:

Investments of debt proceeds held by a bond trustee are governed by the general provisions of the California Government Code or the District’s investment policy (whichever is more restrictive).

Disclosures Relating to Interest Rate Risk:

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time to provide the cash flow and liquidity needed for operations.

2. CASH AND INVESTMENTS (CONTINUED):

Disclosures Relating to Interest Rate Risk (Continued):

Information about the sensitivity of the fair values of the District’s investments to market interest rate fluctuations is provided by the following tables that show the distribution of the District’s investments by maturity.

As of June 30, 2014 the District had the following investments:

Investment Type	Total	Remaining Maturity (in Months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
CAMP	\$ 4,421,859	\$ 4,421,859	\$ -	\$ -	\$ -
Local Agency Investment Fund (LAIF)	21,812,693	21,812,693	-	-	-
Money Market Mutual Funds	133,054	133,054	-	-	-
Commercial Paper	1,499,817	1,499,817	-	-	-
U.S. Government Sponsored Entities	9,783,244	-	6,510,936	3,272,308	-
U.S. Treasury Obligations	8,515,315	500,469	4,003,830	4,011,016	-
Corporate Obligations	2,508,333	-	2,005,650	502,683	-
<b>Total</b>	<b>\$ 48,674,315</b>	<b>\$ 28,367,892</b>	<b>\$ 12,520,416</b>	<b>\$ 7,786,007</b>	<b>\$ -</b>

As of June 30, 2013 the District had the following investments:

Investment Type	Total	Remaining Maturity (in Months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
CAMP	\$ 4,418,900	\$ 4,418,900	\$ -	\$ -	\$ -
Local Agency Investment Fund (LAIF)	21,758,413	21,758,413	-	-	-
Money Market Mutual Funds	124,394	124,394	-	-	-
U.S. Government Sponsored Entities	7,725,628	1,252,988	-	6,472,640	-
U.S. Treasury Obligations	5,770,396	2,277,576	1,499,700	1,993,120	-
Corporate Obligations	494,630	-	-	-	494,630
<b>Total</b>	<b>\$40,292,361</b>	<b>\$29,832,271</b>	<b>\$ 1,499,700</b>	<b>\$ 8,465,760</b>	<b>\$ 494,630</b>

Disclosures Relating to Credit Risk:

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the District’s investment policy or debt agreements, and the Standard and Poor’s rating as of June 30, 2014 and 2013 for each investment type.

2. CASH AND INVESTMENTS (CONTINUED):

Disclosures Relating to Credit Risk (Continued):

The District’s investment policy and the actual rating as of June 30, 2014 for each investment type are as follows:

Investment Type	Total	Minimum Legal Rating	Exempt from Disclosure	Rating as of Year End			
				AAA	AA	A	Not Rated
CAMP	\$ 4,421,859	N/A	\$ -	\$ 4,421,859	\$ -	\$ -	\$ -
Local Agency Investment Fund (LAIF)	21,812,693	N/A	-	-	-	-	21,812,693
Money Market Mutual Funds	133,054	AAA	-	133,054	-	-	-
Commercial Paper	1,499,817	N/A	-	1,499,817	-	-	-
U.S. Government Sponsored Entities	9,783,244	N/A	-	-	9,783,244	-	-
U.S. Treasury Obligations	8,515,315	N/A	8,515,315	-	-	-	-
Corporate Obligations	2,508,333	N/A	-	-	1,982,599	525,734	-
<b>Total</b>	<b>\$ 48,674,315</b>		<b>\$ 8,515,315</b>	<b>\$ 6,054,730</b>	<b>\$ 11,765,843</b>	<b>\$ 525,734</b>	<b>\$ 21,812,693</b>

The District’s investment policy and the actual rating as of June 30, 2013 for each investment type are as follows:

Investment Type	Total	Minimum Legal Rating	Exempt from Disclosure	Rating as of Year End		
				AAA	AA+	Not Rated
CAMP	\$ 4,418,900	N/A	\$ -	\$ 4,418,900	\$ -	\$ -
Local Agency Investment Fund (LAIF)	21,758,413	N/A	-	-	-	21,758,413
Money Market Mutual Funds	124,394	AAA	-	124,394	-	-
U.S. Government Sponsored Entities	7,725,628	N/A	-	-	7,725,628	-
U.S. Treasury Obligations	5,770,396	N/A	5,770,396	-	-	-
Corporate Obligations	494,630	N/A	-	-	494,630	-
<b>Total</b>	<b>\$40,292,361</b>		<b>\$ 5,770,396</b>	<b>\$ 4,543,294</b>	<b>\$ 8,220,258</b>	<b>\$21,758,413</b>

Concentration of Credit Risk:

The investment policy of the District contains various limitations on the amounts that can be invested in any one type or group of investments and in any issuer, beyond that stipulated by the California Government Code, Sections 53600 through 53692. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments as of June 30, 2014 and 2013 are as follows:

June 30, 2014

Issuer	Investment Type	Reported Amount
Federal National Mortgage Association	U.S. Government Sponsored Entities	\$ 5,518,945

June 30, 2013

Issuer	Investment Type	Reported Amount
Federal National Mortgage Association	U.S. Government Sponsored Entities	\$ 4,474,820

**2. CASH AND INVESTMENTS (CONTINUED):****Custodial Credit Risk:**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, an entity 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 for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, an entity will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2014 and 2013, \$7,892,029 and \$2,466,776 respectively of the District's deposits with financial institutions in excess of federal depository insurance limits was held in collateralized accounts.

**Local Agency Investment Fund (LAIF):**

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.

**California Asset Management Program (CAMP):**

The District is a voluntary participant in the California Asset Management Program (CAMP). CAMP is an investment pool offered by the California Asset Management Trust (the Trust). The Trust is a joint powers authority and public agency created by the Declaration of Trust and established under the provisions of the California Joint Exercise of Powers Act for the purpose of exercising the common power of its Participants to invest funds. The investments are limited to investments permitted by California Government Code. The District reports its investment in CAMP at the fair value amounts provided by CAMP, which is the same value of the pool share. At June 30, 2014 and 2013 the fair value approximated is the District's cost.

3. RESTRICTED ASSETS:

Restricted assets were provided by, and are to be used for, the following:

Funding Source	Use	2014	2013
Customer and construction deposits	Various	\$ 387,097	\$ 328,260
Capacity expansion funds and accrued interest receivable	Acquisition and construction	7,665,066	6,697,705
Debt proceeds, capital contributions and interest earned	Debt service and acquisition and construction	17,896,698	21,755,742
Pensions and other	Various	13,998	13,995
		<u>\$ 25,962,859</u>	<u>\$ 28,795,702</u>

4. CAPITAL ASSETS:

The following is a summary of changes in Capital Assets for the year ended June 30, 2014:

	June 30, 2013	Additions	Deletions	June 30, 2014
Capital Assets, Not Depreciated:				
Land, Franchise and Water Rights	\$ 898,511	\$ -	\$ -	\$ 898,511
Construction in Progress	21,500,239	7,443,561	(13,963,689)	14,980,111
Total Capital Assets Not Depreciated	<u>22,398,750</u>	<u>7,443,561</u>	<u>(13,963,689)</u>	<u>15,878,622</u>
Capital Assets, Being Depreciated:				
Water System	196,768,665	11,305,368	-	208,074,033
Sewer System	46,219,420	1,763,421	-	47,982,841
Water Recycling System	26,287,082	99,952	-	26,387,034
Park and Campgrounds	19,051,613	1,107,705	-	20,159,318
Buildings	14,921,429	-	-	14,921,429
Equipment	8,151,118	2,291,830	(456,740)	9,986,208
Total Capital Assets Being Depreciated	311,399,327	16,568,276	(456,740)	327,510,863
Less Accumulated Depreciation:	<u>(93,280,768)</u>	<u>(6,822,731)</u>	<u>455,049</u>	<u>(99,648,450)</u>
Total Capital Assets Being Depreciated, Net	<u>218,118,559</u>	<u>9,745,545</u>	<u>(1,691)</u>	<u>227,862,413</u>
Total Capital Assets, Net	<u>\$ 240,517,309</u>	<u>\$ 17,189,106</u>	<u>\$ (13,965,380)</u>	<u>\$ 243,741,035</u>

4. CAPITAL ASSETS (CONTINUED):

The following is a summary of changes in Capital Assets for the year ended June 30, 2013:

	June 30, 2012	Additions	Deletions	June 30, 2013
Capital Assets, Not Depreciated:				
Land, Franchise and Water Rights	\$ 898,511	\$ -	\$ -	\$ 898,511
Construction in Progress	24,727,538	7,879,132	(11,106,431)	21,500,239
Total Capital Assets Not Depreciated	<u>25,626,049</u>	<u>7,879,132</u>	<u>(11,106,431)</u>	<u>22,398,750</u>
Capital Assets, Being Depreciated:				
Water System	183,551,092	13,217,573	-	196,768,665
Sewer System	44,726,771	1,492,649	-	46,219,420
Water Recycling System	26,059,048	228,034	-	26,287,082
Park and Campgrounds	19,046,288	5,325	-	19,051,613
Buildings	14,921,429	-	-	14,921,429
Equipment	7,810,807	417,463	(77,152)	8,151,118
Total Capital Assets Being Depreciated	<u>296,115,435</u>	<u>15,361,044</u>	<u>(77,152)</u>	<u>311,399,327</u>
Less Accumulated Depreciation:	<u>(86,731,749)</u>	<u>(6,620,622)</u>	<u>71,603</u>	<u>(93,280,768)</u>
Total Capital Assets Being Depreciated, Net	<u>209,383,686</u>	<u>8,740,422</u>	<u>(5,549)</u>	<u>218,118,559</u>
Total Capital Assets, Net	<u>\$ 235,009,735</u>	<u>\$ 16,619,554</u>	<u>\$ (11,111,980)</u>	<u>\$ 240,517,309</u>



5. LONG-TERM DEBT:

Long-term liabilities for the year ended June 30, 2014 are as follows:

	Balance at June 30, 2013	Additions	Deletions	Balance at June 30, 2014	Due within One Year
Certificates of Participation:					
2009 Certificates of Participation	\$ 52,165,000	\$ -	\$ (615,000)	\$ 51,550,000	\$ 635,000
2009 COPS Unamortized Premium	2,893,235	-	(135,763)	2,757,472	-
Net Certificates of Participation	55,058,235	-	(750,763)	54,307,472	635,000
Note Payable:					
California Bank and Trust	3,249,346	-	(329,512)	2,919,834	335,612
Capital Leases:					
Banc of America	3,921,969	-	(531,311)	3,390,658	555,761
Revenue Bonds:					
2013 Refunding Revenue Bonds	7,225,000	-	(1,120,000)	6,105,000	1,175,000
2013 Unamortized Premium	811,756	-	(117,007)	694,749	-
Net Revenue Bonds	8,036,756	-	(1,237,007)	6,799,749	1,175,000
Other Long-Term Debt:					
Capital One Park Cabins Loan	1,281,958	-	(71,700)	1,210,258	75,390
Lakeside Detachment Liability	119,930	-	(38,043)	81,887	39,945
Total Other Long-Term Debt	1,401,888	-	(109,743)	1,292,145	115,335
	<u>\$ 71,668,194</u>	<u>\$ -</u>	<u>\$ (2,958,336)</u>	<u>\$ 68,709,858</u>	<u>\$ 2,816,708</u>

5. LONG-TERM DEBT (CONTINUED):

Certificates of Participation (COPS):

On September 1, 2009, the District issued \$53,695,000 of 2009 Capital Improvement and Refunding Project, Series A Certificates of Participation which consisted of serial bonds and term bonds. \$27,020,000 of serial bonds mature annually from October 1, 2010 to October 1, 2029 and bear varying interest rates between 2.00% and 5.25%. An \$11,600,000 term bond matures on October 1, 2034 and bears an interest rate of 5.25%, and a \$15,075,000 term bond matures on October 1, 2039 and bears an interest of 5.25%. The COPs were issued in part to refinance the Certificates of Participation issued in 1996 and in part to finance various improvements to the District’s Water System.

Future debt service requirements for the 2009 Certificates of Participation are as follows:

For the Year Ended June 30,	Principal	Interest	Total
2015	\$ 635,000	\$ 2,536,019	\$ 3,171,019
2016	650,000	2,511,906	3,161,906
2017	675,000	2,485,406	3,160,406
2018	1,715,000	2,437,606	4,152,606
2019	1,780,000	2,376,606	4,156,606
2020-2024	8,970,000	10,713,131	19,683,131
2025-2029	8,475,000	8,660,922	17,135,922
2030-2034	11,005,000	6,137,381	17,142,381
2035-2039	14,305,000	2,833,031	17,138,031
2040	3,340,000	87,675	3,427,675
	<u>\$ 51,550,000</u>	<u>\$ 40,779,683</u>	<u>\$ 92,329,683</u>

5. LONG-TERM DEBT (CONTINUED):

Note Payable:

In April 1996, the District obtained an unsecured loan from California Bank and Trust, which was refinanced in 2002, 2007 and again in 2012, in the amount of \$5,000,000. The note bears interest at 61% of the prime rate (1.98% at June 30, 2014). The note requires monthly interest and principal payments of \$32,651 with the remaining unpaid principal balance due August, 2017. This note is payable from revenues levied by the District for purposes other than the payment of principal and interest of bonded debt.

Future debt service requirements for the California Bank and Trust Note are as follows:

<u>For the Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 335,612	\$ 56,204	\$ 391,816
2016	342,852	48,964	391,816
2017	349,924	41,892	391,816
2018	<u>1,891,446</u>	<u>3,230</u>	<u>1,894,676</u>
	<u>\$ 2,919,834</u>	<u>\$ 150,290</u>	<u>\$ 3,070,124</u>

Capital Lease:

The District entered into a capital lease agreement on July 16, 2009 with Banc of America for \$5,604,125 to finance a portion of the \$8,706,363 cost of various new equipment. Accumulated depreciation on this equipment at June 30, 2014 and June 30, 2013 was \$2,079,854 and \$1,499,429, respectively. The capital lease is for a term of 10 years with semiannual lease payments of \$351,892 which include interest at 6.75%. Upon the expiration of the lease term the equipment can be purchased for \$1.00.

Future minimum lease payments under the capital lease are as follows:

<u>For the Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 555,761	\$ 148,024	\$ 703,785
2016	581,335	122,450	703,785
2017	608,087	95,698	703,785
2018	636,070	67,715	703,785
2019	665,340	38,445	703,785
2020	<u>344,065</u>	<u>7,827</u>	<u>351,892</u>
	<u>\$ 3,390,658</u>	<u>\$ 480,159</u>	<u>\$ 3,870,817</u>

5. LONG-TERM DEBT (CONTINUED):

Revenue Bonds:

In April 2013, the 2013 Refunding Revenue Bonds were issued to defease the 2004 Certificates of Participation and the 1995 and 1996 State of California Loans Payable. The bonds were issued with a face value of \$7,225,000 plus an \$831,257 original issue premium. The bonds bear interest at 1% to 5% and are due in annual installments of \$395,000 to \$1,120,000 from December 31, 2013 through December 31, 2024.

Future debt service requirements for the revenue bonds are as follows:

<u>For the Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 1,175,000	\$ 224,125	\$ 1,399,125
2016	1,280,000	181,950	1,461,950
2017	920,000	146,150	1,066,150
2018	295,000	117,250	412,250
2019	305,000	103,725	408,725
2020-2024	1,735,000	295,775	2,030,775
2025	395,000	9,875	404,875
	<u>\$ 6,105,000</u>	<u>\$ 1,078,850</u>	<u>\$ 7,183,850</u>

5. LONG-TERM DEBT (CONTINUED):

Other Long-Term Debt:

The District had a wholesale agreement with Lakeside Water District. Effective November 16, 2006, Lakeside Water District (Lakeside) detached from the District. Per the detachment agreement, the District was required to make ten annual payments to Lakeside totaling \$448,000. The District estimates that the net present value of the remaining principal payments is \$81,887 assuming a 5% rate of return. The Lakeside detachment liability is reported on the statements of net position as other long-term debt.

Future debt service requirements for the Lakeside detachment liability are as follows:

For the Year Ended June 30,	Principal	Interest	Total
2015	\$ 39,945	\$ 4,855	\$ 44,800
2016	41,942	2,858	44,800
	<u>\$ 81,887</u>	<u>\$ 7,713</u>	<u>\$ 89,600</u>

On October 1, 2010, the District entered into an installment sale agreement with Capital One to finance the purchase and site work necessary to install 7 land based cabins and 3 floating cabins at Santee Lakes. The total amount financed, including legal and closing costs, is \$1,415,000. The term of the agreement is 15 years with an effective interest rate of 5.147%. Annual payments of \$137,682 are required and are made with Park Funds. The agreement is subordinate to the existing COPs and is secured by a pledge of Park and District net revenues.

Future debt service requirements for the Government Capital Corporation installment agreement is as follows:

For the Year Ended June 30,	Principal	Interest	Total
2015	\$ 75,390	\$ 62,292	\$ 137,682
2016	79,271	58,411	137,682
2017	83,351	54,331	137,682
2018	87,641	50,041	137,682
2019	92,151	45,531	137,682
2020-2024	536,979	151,431	688,410
2025-2026	255,475	19,889	275,364
	<u>\$ 1,210,258</u>	<u>\$ 441,926</u>	<u>\$ 1,652,184</u>

6. PREPAID CAPACITY FEES:

The District records capacity fees collected as a liability until its duty to perform has been completed and service has begun at which time these fees are recorded as capital contributions. Following is a summary of the prepaid capacity fee liability at June 30:

	<u>2014</u>	<u>2013</u>
Balance, Beginning of Year	\$ 843,496	\$ 1,291,785
Add: Construction and Capacity Fees Received	4,667,142	1,619,735
Less: Water and Sewer Connections	(2,527,481)	(2,056,477)
Refunds	<u>-</u>	<u>(11,547)</u>
Balance, End of Year	<u>\$ 2,983,157</u>	<u>\$ 843,496</u>

7. DEFINED BENEFIT PENSION PLAN:

Plan Description

The District’s defined benefit pension plan (the “Plan”) provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. The Plan is part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements are established by State statutes within the Public Employees’ Retirement Law. The Plan selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through District resolution. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS’ annual financial report may be obtained from the CalPERS Executive Office, 400 Q Street, Sacramento, California 95814.

Funding Policy

Active members in the Plan are required to contribute 8% of their annual covered salary of which the District pays 1.5% on behalf of the employees. As of July 1, 2014, the District will no longer pay any portion of the employee’s required contribution. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rates were 19.906% and 18.844% for the years ended June 30, 2014 and 2013, respectively. The District is required to contribute the actuarially determined remaining amounts necessary to fund the 3% at age 60 retirement plan benefits for its classic members and 2.0% at age 62 for its new members under the California Employees’ Pension Reform Act (PEPRA) provisions. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

7. DEFINED BENEFIT PENSION PLAN (CONTINUED):

Annual Pension Costs

For the fiscal years ended June 30, 2014 and June 30, 2013, the District’s annual pension cost and actual contribution was \$2,033,508 and \$1,938,042, respectively. The required contribution for the fiscal year ended June 30, 2014 was determined as part of the June 30, 2012 actuarial valuation.

The following is a summary of the actuarial assumptions and methods:

Valuation Date	June 30, 2012
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	26 Years as of the Valuation Date
Asset Valuation Method	15 Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	7.50% (net of administrative expenses)
Projected Salary Increases	3.30% to 14.20% depending on age, service, and type of employment
Inflation	2.75%
Payroll Growth	3.00%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%.

Initial unfunded liabilities are amortized over a closed period that depends on the plan’s date of entry into CalPERS. Subsequent plan amendments are amortized as a level percent of pay over a closed 20 year period. Gains and losses that occur in the operation of the plan are amortized over a 30 year rolling period, which results in an amortization of 6% of unamortized gains and losses each year. If the plan’s accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30 year amortization period.

Three-Year Trend Information for PERS

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2014	\$2,033,508	100%	\$-0-
June 30, 2013	\$1,938,042	100%	\$-0-
June 30, 2012	\$2,049,349	100%	\$-0-

Funded Status and Funding Progress

As of June 30, 2012, the most recent actuarial valuation date, the plan was 74.0% funded. The actuarial accrued liability (AAL) for benefits was \$83,757,476, and the actuarial value of assets was \$62,021,398, resulting in an unfunded actuarial accrued liability (UAAL) of \$21,736,078. The covered payroll (annual payroll of active employees covered by the plan) was \$10,025,984, and the ratio of the UAAL to the covered payroll was 216.8%.

The schedule of funding progress, presented as *required supplementary information* following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over the time relative to the actuarial accrued liability for benefits.

8. OTHER POST EMPLOYMENT BENEFITS:

Plan Description

The District contributes to a single-employer defined benefit plan to provide medical benefits to eligible retired District employees and beneficiaries. The Plan has three tiers of retiree health insurance benefits. Members who were hired on or before August 27, 2002 and who meet full eligibility requirements receive medical benefits paid for entirely by the employer; members must meet additional eligibility requirements after this date to receive the same benefit. Reduced benefits are available to members hired after August 27, 2002 and before August 6, 2006. For members hired after August 8, 2006, the District will contribute up to \$600 per month towards health insurance at the time of retirement if the member meets certain requirements; this coverage ends when the member becomes eligible for Medicare. The plan does not provide a publicly available financial report.

Funding Policy

The contribution requirements of plan members and the District are established and may be amended by the Board of Directors. The District’s annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal annual cost plus the portion of the unfunded actuarial accrued liability (or funding excess). Any unfunded actuarial liability (or funding excess) is amortized over a period not to exceed thirty years. The current ARC rate is 12.9% of the annual covered payroll.

Annual OPEB Cost and Net OPEB Obligation

The following table shows the components of the District’s annual OPEB cost for the years ending June 30, 2014 and 2013, the amount actually contributed to the plan, and changes in the District’s net OPEB obligation:

	2014	2013
Annual Required Contribution (ARC)	\$ 1,268,717	\$ 1,457,946
Interest on net OPEB obligation	-	-
Adjustment to Annual Required Contribution (ARC)	-	-
Annual OPEB cost (expense)	1,268,717	1,457,946
Contributions made	1,268,717	1,457,946
Increase in net OPEB obligation	-	-
Net OPEB obligation - beginning of year	-	-
Net OPEB obligation - end of year	\$ -	\$ -



8. OTHER POST EMPLOYMENT BENEFITS (CONTINUED):

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal years 2014, 2013 and 2012 were as follows:

<u>THREE-YEAR TREND INFORMATION FOR CERBT</u>			
<u>Fiscal Year</u>	<u>Annual OPEB Cost (AOC)</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/14	\$ 1,268,717	100%	\$ -
6/30/13	\$ 1,457,946	100%	\$ -
6/30/12	\$ 1,457,946	100%	\$ -

Funded Status and Funding Progress

The funded status of the plan as of the June 30, 2013 actuarial valuation was as follows:

Actuarial Accrued Liability (AAL)	\$ 24,390,130
Actuarial Value of Plan Assets	\$ 8,489,252
Unfunded Actuarial Accrued Liability (UAAL)	\$ 15,900,878
Funded Ratio (Actuarial Value of Plan Assets/AAL)	34.81%
Covered Payroll (Active Plan Members)	\$ 9,812,967
UAAL as a Percentage of Covered Payroll	162.04%

Actuarial Methods and Assumptions

The required contribution was determined as part of the June 30, 2013 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included a 7.61% investment rate of return. The District’s projected healthcare cost trend rate is projected to be 7.5% per annum graded down approximately one-quarter percent increments to an ultimate rate of 4.5%. The District’s unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll over a fixed 30-year period. The District’s projected salary increase was 3.25%. Inflation was projected at 3.0%. The average remaining amortization period at June 30, 2013 was 24 years. The asset valuation method is based on the market value basis.

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 employer 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 multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for the benefits.

9. REIMBURSEMENT CONTRACTS:

The District has entered into a number of reimbursement contracts with developers who have made contributions to the District to aid in the construction of water and sewer facilities. These contracts are to be repaid as new connections are made to the related water and sewer facilities. The District’s liability is limited to collecting the applicable connection fees and payment of the fees to the developers. Usually, only connections made within ten years from the date of each contract qualify for repayment; the contracts are void after that date.

10. COMMITMENTS AND CONTINGENCIES:

Leases

The District entered into a twenty-five year agreement in 1976 with the City of San Diego for the use of a portion of a major water transmission line. In December 2002, the lease was extended for an additional ten years. In November 2011, the lease was extended for an additional ten years. The minimum annual payments under the terms of the agreement are \$33,339 through December 2021.

The District entered into a lease agreement in 1997 with the City of San Diego for the use of an antenna for the purpose of a mobile relay station and as a data relay station. The lease was amended in February 2008 to extend the lease to February 2018. Monthly payments are \$1,360 with an annual cost of living increase of 3%.

Rent expense under these non-cancelable leases was \$52,826 and \$54,771 for the years ended June 30, 2014 and 2013.

Future minimum lease payments as of June 30, 2014 are as follows:

2015	\$ 53,411
2016	54,013
2017	54,633
2018	55,272
2019	33,339
Thereafter	<u>66,678</u>
	<u>\$ 317,346</u>

Litigation

There are pending lawsuits in which the District is involved. The District’s management and legal counsel estimate that the potential claims against the District, not covered by insurance, resulting from such litigation would not materially affect the operations or financial condition of the District.

Construction Contracts

The District has entered into various contracts for the purchase of material and construction of facilities. The amounts contracted for are based on the contractors’ estimated cost of construction. At June 30, 2014 and 2013 the total unpaid amount on these contracts was \$17,145,326 and \$16,724,628, respectively.

11. CERTIFICATION OF RATE COVENANT REQUIREMENTS:

In connection with the execution and delivery of the outstanding Certificates of Participation and Revenue Bonds, the District agreed to meet certain covenants to maintain and collect gross revenues sufficient in each fiscal year to provide District net revenues which meet or exceed required ratios, as defined in the Rate Covenant section of the Official Statements. The District has complied with the Rate Covenants as outlined in the 2009 Certificates of Participation agreement and the 2013 Refunding Revenue Bonds for the year ending June 30, 2014. In connection with the execution and delivery of the California Bank and Trust Note, the District agreed to meet certain covenants to meet or exceed required ratios, as defined in the Rate Covenant section of the Official Statements. The District has complied with the Rate Covenants as outlined in the Note agreement for the year ended June 30, 2014.

## 12. RISK MANAGEMENT:

The District is exposed to various risks of loss related to torts, theft, damage and destruction of assets, errors and omissions, and natural disasters. The District participates in an insurance pool through the Special District Risk Management Authority (SDRMA). SDRMA is a not-for-profit public agency formed under California Government Code Sections 6500 et. Seq. SDRMA is governed by a board composed of members from participating agencies. The mission of SDRMA is to provide renewable, efficiently priced risk financing and risk management services through a financially sound pool. The District pays an annual premium for commercial insurance covering general liability, excess liability, property, automobile, public employee dishonesty, and various other risks. Accordingly, the District retains no risk of loss. Separate financial statements of SDRMA may be obtained at Special District Risk Management Authority, 1112 "T" Street, Suite 300, Sacramento, CA 95814. During its membership, the following policies were in effect:

General and Auto Liability - Public Officials' and Employees' Errors and Omissions and Employment Practices Liability: Total risk financing limits of \$10.0 million, combined single limit at \$10.0 million per occurrence, subject to the following deductibles:

- \$10,000 per occurrence for third party general liability and auto liability property damage.
- 50% co-insurance of cost expended by SDRMA in excess of \$10,000 up to \$50,000 per occurrence for employment related claims. However 100% of the obligation may be waived if certain criteria are met.

Employee Dishonesty Coverage - Total of \$400,000 per loss includes Public Employee Dishonesty, Forgery or Alteration and Theft, and Disappearance and Destruction.

Property Loss - Replacement cost, for property on file, if replaced and if not replaced within two years after the loss, paid on an actual cash value basis, to a combined total of \$1 billion per occurrence, subject to \$1,000 deductible per occurrence.

Boiler and Machinery - Replacement cost up to \$100 million per occurrence, subject to a \$1,000 deductible.

Comprehensive and Collision - On selected vehicles, with deductibles of \$250/\$500 or \$500/\$1,000, as elected; ACV limits, fully self-funded by SDRMA.

Public Officials' Personal Liability - \$500,000 each occurrence, with an annual aggregate of \$500,000 per each elected/appointed official to which this coverage applies, subject to the terms, conditions and exclusions as provided in the Memorandum of Coverage's, deductible of \$500 per claim.

Workers' Compensation & Employer's Liability – Statutory limits per occurrence for Workers' Compensation and \$5 million for Employer's Liability Coverage.

Members are subject to dividends and/or assessments, in accordance with the Sixth Amended Joint Powers Agreement and amendments thereto. No such dividends have been declared, nor have any assessments been levied. Presently, there are no known refunds or credits due to the District.

During the past three fiscal (claims) years none of the above programs of protection have had settlements or judgments that exceeded pooled or insured coverage. There have been no significant reductions in pooled or insured liability coverage from coverage in the prior year.

**13. PRIOR PERIOD ADJUSTMENT AND RESTATEMENTS OF 2013 BALANCES:**

During the fiscal year ending June 30, 2014, the District implemented GASB Statement No. 65, "*Items Previously Reported as Assets and Liabilities.*" Due to the implementation of this statement, bond issuance costs and certain amounts classified as deferred amounts on refunding, which had previously been capitalized on the statement of net position and written off over the life of the corresponding debt issuance, have been restated as expenses in the periods incurred. The amount previously capitalized as of July 1, 2012 \$599,922, is reflected as a prior period adjustment. On the statement of net position, fiscal year 2013 balances have been restated for the removal of debt issuance costs and certain deferred amounts on refunding. On the statement of revenues, expenses and changes in net position, the 2013 column reflects a \$166,671 nonoperating expense. This is the result of \$199,223 of previously capitalized bond issuance costs offset by \$32,552 previously shown as amortization expense.

**Required Supplementary Information**

**Schedule of Funding Progress for PERS**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u> (A)	<u>Actuarial Liability (AAL) Entry Age</u> (B)	<u>Unfunded AAL (UAAL)</u> (B-A)	<u>Funded Status</u> (A/B)	<u>Annual Covered Payroll</u> (C)	<u>UAAL as a Percentage of Covered Payroll</u> [(B-A)/C]
June 30, 2010	\$53,747,986	\$71,494,698	\$17,746,712	75.2%	\$10,818,648	164.0%
June 30, 2011	\$58,106,355	\$78,446,285	\$20,339,930	74.1%	\$10,969,899	185.4%
June 30, 2012	\$62,021,398	\$83,757,476	\$21,736,078	74.0%	\$10,025,984	216.8%

**Schedule of Funding Progress for OPEB**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u> (A)	<u>Actuarial Liability (AAL) Entry Age</u> (B)	<u>Unfunded AAL (UAAL)</u> (B-A)	<u>Funded Status</u> (A/B)	<u>Annual Covered Payroll</u> (C)	<u>UAAL as a Percentage of Covered Payroll</u> [(B-A)/C]
June 30, 2009	\$2,327,666	\$16,919,634	\$14,591,968	13.8%	\$9,761,175	149.5%
June 30, 2011	\$5,568,515	\$23,247,868	\$17,679,353	24.0%	\$9,608,620	184.0%
June 30, 2013	\$8,489,252	\$24,390,130	\$15,900,878	34.8%	\$9,812,967	162.0%

The District is only required to perform annual actuarial valuations biennially. The June 30, 2015 actuarial valuation was not available in time for the preparation of this schedule.

## **Supplementary Information**

**PADRE DAM MUNICIPAL WATER DISTRICT**

SCHEDULE OF INCOME (LOSS) BEFORE CONTRIBUTIONS BY FUND SERVICES  
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Water</u>	<u>Sewer</u>	<u>Park</u>	<u>Other</u>	<u>Restricted</u>	<u>Total</u>
<b>Operating Revenues:</b>						
Water Sales	\$ 28,773,739	\$ -	\$ -	\$ -	\$ -	\$ 28,773,739
Sewer Revenues	-	16,000,749	-	-	-	16,000,749
System Charges	8,173,645	-	-	-	-	8,173,645
Park Fees	-	-	4,891,662	-	-	4,891,662
Other Operating Income	6,088,475	15,315	42	-	-	6,103,832
Total Operating Revenues	<u>43,035,859</u>	<u>16,016,064</u>	<u>4,891,704</u>	<u>-</u>	<u>-</u>	<u>63,943,627</u>
<b>Operating Expenses:</b>						
<b>Direct Expenses</b>						
Water Purchases	16,100,836	-	-	-	-	16,100,836
Sewer METRO Costs	-	3,728,490	-	-	-	3,728,490
Other Operating Expenses	2,245,612	2,056,989	292,428	-	-	4,595,029
<b>Internal Expenses</b>						
Salary and Wages	7,356,024	2,926,369	987,961	-	-	11,270,354
Employee Benefits	4,102,129	1,726,170	540,170	-	-	6,368,469
Professional Services	1,800,733	701,773	320,935	-	-	2,823,441
Materials, Supplies, Vehicle, & Bldg. Rent	2,198,067	1,272,200	664,722	-	-	4,134,989
Administrative Expenses	668,544	263,707	162,617	-	-	1,094,868
Utilities	259,293	422,698	581,582	-	-	1,263,573
Depreciation	5,123,748	971,951	727,032	-	-	6,822,731
Billing Credits	(1,716,995)	(776,101)	(5,932)	-	-	(2,499,028)
Total Operating Expenses	<u>38,137,991</u>	<u>13,294,246</u>	<u>4,271,515</u>	<u>-</u>	<u>-</u>	<u>55,703,752</u>
Operating Income (Loss)	<u>4,897,868</u>	<u>2,721,818</u>	<u>620,189</u>	<u>-</u>	<u>-</u>	<u>8,239,875</u>
<b>Nonoperating Revenues and (Expenses):</b>						
Investment Income (Loss)	69,139	56,492	5,211	52,152	-	182,994
Restricted Investment Income (Loss)	-	-	-	-	165,964	165,964
Taxes and Assessments	2,769,104	-	-	-	-	2,769,104
Gain on Sale of Assets	-	-	-	3,445	-	3,445
Interest Expense	(2,014,865)	(35,114)	(161,103)	0	(519,638)	(2,730,720)
Other Nonoperating	-	-	-	-	-	-
Total Nonoperating Revenues and (Expenses)	<u>823,378</u>	<u>21,378</u>	<u>(155,892)</u>	<u>55,597</u>	<u>(353,674)</u>	<u>390,787</u>
<b>Income (Loss) Before Capital Contributions</b>	<u>\$ 5,721,246</u>	<u>\$ 2,743,196</u>	<u>\$ 464,297</u>	<u>\$ 55,597</u>	<u>\$ (353,674)</u>	<u>\$ 8,630,662</u>



**PADRE DAM MUNICIPAL WATER DISTRICT**

SCHEDULE OF INCOME (LOSS) BEFORE CONTRIBUTIONS BY FUND SERVICES  
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Water</u>	<u>Sewer</u>	<u>Park</u>	<u>Other</u>	<u>Restricted</u>	<u>Total</u>
<b>Operating Revenues:</b>						
Water Sales	\$ 26,055,922	\$ -	\$ -	\$ -	\$ -	\$ 26,055,922
Sewer Revenues	-	15,529,545	-	-	-	15,529,545
System Charges	7,515,126	-	-	-	-	7,515,126
Park Fees	-	-	4,692,526	-	-	4,692,526
Other Operating Income	5,628,696	14,617	377	-	-	5,643,690
Total Operating Revenues	<u>39,199,744</u>	<u>15,544,162</u>	<u>4,692,903</u>	<u>-</u>	<u>-</u>	<u>59,436,809</u>
<b>Operating Expenses:</b>						
<b>Direct Expenses</b>						
Water Purchases	14,809,293	-	-	-	-	14,809,293
Sewer METRO Costs	-	3,964,591	-	-	-	3,964,591
Other Operating Expenses	2,072,407	1,959,038	294,109	-	-	4,325,554
<b>Internal Expenses</b>						
Salary and Wages	7,306,415	2,866,814	955,114	-	-	11,128,343
Employee Benefits	4,270,483	1,847,688	555,387	-	-	6,673,558
Professional Services	707,435	264,583	169,323	-	-	1,141,341
Materials, Supplies, Vehicle, & Bldg. Rent	1,846,232	1,283,505	631,045	-	-	3,760,782
Administrative Expenses	518,573	368,331	147,599	-	-	1,034,503
Utilities	256,636	395,055	569,136	-	-	1,220,827
Depreciation	4,935,188	963,001	722,433	-	-	6,620,622
Billing Credits	(1,543,674)	(713,820)	(15,272)	-	-	(2,272,766)
Total Operating Expenses	<u>35,178,988</u>	<u>13,198,786</u>	<u>4,028,874</u>	<u>-</u>	<u>-</u>	<u>52,406,648</u>
Operating Income (Loss)	<u>4,020,756</u>	<u>2,345,376</u>	<u>664,029</u>	<u>-</u>	<u>-</u>	<u>7,030,161</u>
<b>Nonoperating Revenues and (Expenses):</b>						
Investment Income (Loss)	66,176	56,255	6,754	(89,916)	-	39,269
Restricted Investment Income (Loss)	-	-	-	-	125,504	125,504
Taxes and Assessments	2,612,561	-	-	-	-	2,612,561
Gain on Sale of Assets	-	-	-	4,005	-	4,005
Interest Expense	(2,177,736)	(46,140)	(242,854)	0	(513,485)	(2,980,215)
Other Nonoperating	(34,797)	-	(164,443)	-	-	(199,240)
Total Nonoperating Revenues and (Expenses)	<u>466,204</u>	<u>10,115</u>	<u>(400,543)</u>	<u>(85,911)</u>	<u>(387,981)</u>	<u>(398,116)</u>
<b>Income (Loss) Before Capital Contributions</b>	<u>\$ 4,486,960</u>	<u>\$ 2,355,491</u>	<u>\$ 263,486</u>	<u>\$ (85,911)</u>	<u>\$ (387,981)</u>	<u>\$ 6,632,045</u>

SCHEDULE OF INCOME (LOSS) BEFORE CONTRIBUTIONS (BUDGET TO ACTUAL)  
FOR THE YEAR ENDED JUNE 30, 2014

	(As Restated) PRIOR YEAR		CURRENT YEAR				CURRENT YEAR ACTUAL TO - FAV/(UNFAV) PRIOR YEAR			
	ACTUAL		A C T U A L	B U D G E T		B U D G E T				
	\$		\$	\$	%	\$	%	\$	%	
<b>Operating Revenues:</b>										
<b>Revenues:</b>										
Water Sales	\$ 26,055,922		\$ 28,773,739	\$ 26,294,230	44.3	\$ 2,479,509	9.4	\$ 2,717,817	10.4	
Infrastructure Access Charge	819,467		879,429	834,843	1.4	44,586	5.3	59,962	7.3	
Energy Billings	1,435,618		1,482,004	1,532,910	2.6	(50,906)	(3.3)	46,386	3.2	
CWA/MWD Credits	337,441		337,450	288,698	0.5	48,752	16.9	9	0.0	
Padre Dam Sewer Processing Fee	1,959,038		2,056,989	2,056,989	3.5	-	-	97,951	5.0	
Sewer Revenues	15,529,545		16,000,749	15,141,306	25.5	859,443	5.7	471,204	3.0	
System Charges	7,515,126		8,173,645	7,866,103	13.2	307,542	3.9	658,519	8.8	
Park Fees	4,692,526		4,891,662	4,548,936	7.7	342,726	7.5	199,136	4.2	
Other Revenues	1,092,126		1,347,960	829,572	1.4	518,388	62.5	255,834	23.4	
<b>Total Operating Revenues</b>	<b>59,436,809</b>		<b>63,943,627</b>	<b>59,393,587</b>	<b>100.0</b>	<b>4,550,040</b>	<b>7.7</b>	<b>4,506,818</b>	<b>7.6</b>	
<b>Operating Expenses:</b>										
<b>Direct Expenses:</b>										
Water Purchases	14,809,293		16,100,836	15,471,325	26.0	(629,511)	(4.1)	(1,291,543)	(8.7)	
Infrastructure Access Charge	821,364		835,350	834,843	1.4	(507)	(0.1)	(13,986)	(1.7)	
Energy Purchases	1,251,043		1,410,262	1,532,910	2.6	122,648	8.0	(159,219)	(12.7)	
Sewer METRO Costs	3,964,591		3,728,490	3,731,659	6.3	3,169	0.1	236,101	6.0	
Padre Dam Sewer Treatment	1,959,038		2,056,989	2,056,989	3.5	-	-	(97,951)	(5.0)	
Fish Stock, Propane, & Retail	294,109		292,428	253,296	0.4	(39,132)	(15.4)	1,681	0.6	
<b>Total Direct Expenses</b>	<b>23,099,438</b>		<b>24,424,355</b>	<b>23,881,022</b>	<b>40.2</b>	<b>(543,333)</b>	<b>(2.3)</b>	<b>(1,324,917)</b>	<b>(5.7)</b>	
<b>Internal Expenses:</b>										
Salary & Wages	11,128,343		11,270,354	11,982,135	20.2	711,781	5.9	(142,011)	(1.3)	
Employee Benefits	6,673,558		6,368,469	7,142,969	12.0	774,500	10.8	305,089	4.6	
Professional Services	1,141,341		2,823,441	3,147,434	5.3	323,993	10.3	(1,682,100)	(147.4)	
Materials, Supplies, Vehicle, & Bldg. Rent	3,760,782		4,134,989	4,444,201	7.5	309,212	7.0	(374,207)	(10.0)	
Administrative Expenses	1,034,503		1,094,868	1,300,616	2.2	205,748	15.8	(60,365)	(5.8)	
Utilities	1,220,827		1,263,573	1,143,597	1.9	(119,976)	(10.5)	(42,746)	(3.5)	
Billing Credits	(2,272,766)		(2,499,028)	(3,219,984)	(5.4)	(720,956)	(22.4)	226,262	10.0	
Subtotal	22,686,588		24,456,666	25,940,968	43.7	1,484,302	5.7	(1,770,078)	(7.8)	
Depreciation	6,620,622		6,822,731	7,627,704	12.8	804,973	10.6	(202,109)	(3.1)	
<b>Total Internal Expenses</b>	<b>29,307,210</b>		<b>31,279,397</b>	<b>33,568,672</b>	<b>56.5</b>	<b>2,289,275</b>	<b>6.8</b>	<b>(1,972,187)</b>	<b>(6.7)</b>	
<b>Total Operating Expenses</b>	<b>52,406,648</b>		<b>55,703,752</b>	<b>57,449,694</b>	<b>96.7</b>	<b>1,745,942</b>	<b>3.0</b>	<b>(3,297,104)</b>	<b>(6.3)</b>	
<b>Operating Income (Loss)</b>	<b>7,030,161</b>		<b>8,239,875</b>	<b>1,943,893</b>	<b>3.3</b>	<b>6,295,982</b>	<b>323.9</b>	<b>1,209,714</b>	<b>17.2</b>	
<b>Nonoperating Revenues and (Expenses):</b>										
Interest Income (Designated)	129,185		130,842	102,154	0.2	28,688	28.1	1,657	1.3	
Interest Income (Restricted)	145,242		156,761	40,000	0.1	116,761	291.9	11,519	7.9	
Gain (Loss) on Investments	(109,654)		61,355	-	-	61,355	N/A	171,009	156.0	
Taxes and Assessments	2,612,561		2,769,104	2,348,251	4.0	420,853	17.9	156,543	6.0	
Gain (Loss) on Sale of Other Capital Assets	4,005		3,445	-	-	3,445	N/A	(560)	(14.0)	
Interest Expense	(2,980,215)		(2,730,720)	(2,910,352)	(4.9)	179,632	617%	249,495	8.4	
Other Expense	(199,240)		-	-	-	-	N/A	199,240	N/A	
<b>Total Nonoperating Revenues and (Expenses)</b>	<b>(398,116)</b>		<b>390,787</b>	<b>(419,947)</b>	<b>(0.6)</b>	<b>810,734</b>	<b>193.1</b>	<b>788,903</b>	<b>198.2</b>	
<b>Income (Loss) Before Capital Contributions</b>	<b>\$ 6,632,045</b>		<b>\$ 8,630,662</b>	<b>\$ 1,523,946</b>	<b>2.6</b>	<b>\$ 7,106,716</b>	<b>466.3</b>	<b>\$ 1,998,617</b>	<b>30.1</b>	

PADRE DAM MUNICIPAL WATER DISTRICT

SCHEDULE OF INCOME (LOSS) BEFORE CONTRIBUTIONS (BUDGET TO ACTUAL)  
FOR THE YEAR ENDED JUNE 30, 2013

	(As Restated)						CURRENT YEAR ACTUAL TO - FAV/(UNFAV)		
	PRIOR YEAR		CURRENT YEAR		BUDGET		PRIOR YEAR		
	ACTUAL	ACTUAL	BUDGET	BUDGET	BUDGET	ACTUAL TO - FAV/(UNFAV)	PRIOR YEAR	ACTUAL TO - FAV/(UNFAV)	
	\$	\$	%	\$	%	\$	%	\$	%
<b>Operating Revenues:</b>									
<b>Revenues:</b>									
Water Sales	\$ 22,809,724	\$ 26,055,922	43.8	\$ 24,220,178	43.4	\$ 1,835,744	7.6	\$ 3,246,198	14.2
Infrastructure Access Charge	791,481	819,467	1.4	821,982	1.5	(2,515)	(0.3)	27,986	3.5
Energy Billings	1,358,133	1,435,618	2.4	1,575,392	2.8	(139,774)	(8.9)	77,485	5.7
CWA/MWD Credits	277,591	337,441	0.6	270,397	0.5	67,044	24.8	59,850	21.6
Padre Dam Sewer Processing Fee	1,865,750	1,959,038	3.3	1,959,038	3.5	-	-	93,288	5.0
Sewer Revenues	14,637,544	15,529,545	26.1	14,477,786	25.9	1,051,759	7.3	892,001	6.1
System Charges	6,725,532	7,515,126	12.6	7,296,453	13.1	218,673	3.0	789,594	11.7
Park Fees	4,544,868	4,692,526	7.9	4,391,247	7.9	301,279	6.9	147,658	3.2
Other Revenues	822,365	1,092,126	1.8	807,602	1.4	284,524	35.2	269,761	32.8
<b>Total Operating Revenues</b>	<b>53,832,988</b>	<b>59,436,809</b>	<b>100.0</b>	<b>55,820,075</b>	<b>100.0</b>	<b>3,616,734</b>	<b>6.5</b>	<b>5,603,821</b>	<b>10.4</b>
<b>Operating Expenses:</b>									
<b>Direct Expenses:</b>									
Water Purchases	13,170,583	14,809,293	24.9	14,412,199	25.8	(397,094)	(2.8)	(1,638,710)	(12.4)
Infrastructure Access Charge	794,094	821,364	1.4	821,982	1.5	618	0.1	(27,270)	(3.4)
Energy Purchases	1,111,960	1,251,043	2.1	1,575,392	2.8	324,349	20.6	(139,083)	(12.5)
Sewer METRO Costs	3,895,028	3,964,591	6.7	3,900,000	7.0	(64,591)	(1.7)	(69,563)	(1.8)
Padre Dam Sewer Treatment	1,865,750	1,959,038	3.3	1,959,038	3.5	-	-	(93,288)	(5.0)
Fish Stock, Propane, & Retail	290,768	294,109	0.5	252,760	0.5	(41,349)	(16.4)	(3,341)	(1.1)
<b>Total Direct Expenses</b>	<b>21,128,183</b>	<b>23,099,438</b>	<b>38.9</b>	<b>22,921,371</b>	<b>41.1</b>	<b>(178,067)</b>	<b>(0.8)</b>	<b>(1,971,255)</b>	<b>(9.3)</b>
<b>Internal Expenses:</b>									
Salary & Wages	11,893,981	11,128,343	18.7	11,611,776	20.8	483,433	4.2	765,638	6.4
Employee Benefits	7,242,481	6,673,558	11.2	7,085,370	12.7	411,812	5.8	568,923	7.9
Professional Services	1,495,488	1,141,341	1.9	1,005,889	1.8	(135,452)	(13.5)	354,147	23.7
Materials, Supplies, Vehicle, & Bldg. Rent	3,363,751	3,760,782	6.3	4,061,768	7.3	300,986	7.4	(397,031)	(11.8)
Administrative Expenses	941,289	1,034,503	1.7	1,143,920	2.0	109,417	9.6	(93,214)	(9.9)
Utilities	1,154,815	1,220,827	2.1	1,080,914	1.9	(139,913)	(12.9)	(66,012)	(5.7)
Billing Credits	(2,421,940)	(2,272,766)	(3.8)	(2,910,995)	(5.2)	(638,229)	(21.9)	(149,174)	(6.2)
Subtotal	23,669,865	22,686,588	38.2	23,078,642	41.3	392,054	1.7	983,277	4.2
Depreciation	6,443,692	6,620,622	11.1	7,435,204	13.3	814,582	11.0	(176,930)	(2.7)
<b>Total Internal Expenses</b>	<b>30,113,557</b>	<b>29,307,210</b>	<b>49.3</b>	<b>30,513,846</b>	<b>54.7</b>	<b>1,206,636</b>	<b>4.0</b>	<b>806,347</b>	<b>2.7</b>
<b>Total Operating Expenses</b>	<b>51,241,740</b>	<b>52,406,648</b>	<b>88.2</b>	<b>53,435,217</b>	<b>95.7</b>	<b>1,028,569</b>	<b>1.9</b>	<b>(1,164,908)</b>	<b>(2.3)</b>
<b>Operating Income (Loss)</b>	<b>2,591,248</b>	<b>7,030,161</b>	<b>11.8</b>	<b>2,384,858</b>	<b>4.3</b>	<b>4,645,303</b>	<b>194.8</b>	<b>4,438,913</b>	<b>171.3</b>
<b>Nonoperating Revenues and (Expenses):</b>									
Interest Income (Designated)	184,062	129,185	0.2	102,042	0.2	27,143	26.6	(54,877)	(29.8)
Interest Income (Restricted)	243,928	145,242	0.2	100,000	0.2	45,242	45.2	(98,686)	(40.5)
Gain (Loss) on Investments	(108,920)	(109,654)	(0.2)	-	-	(109,654)	N/A	(734)	(0.7)
Taxes and Assessments	2,397,733	2,612,561	4.3	2,400,000	4.3	212,561	8.9	214,828	9.0
Gain (Loss) on Sale of Other Capital Assets	4,829	4,005	-	-	-	4,005	N/A	(824)	(17.1)
Interest Expense	(3,038,014)	(2,980,215)	(5.0)	(3,009,982)	(5.3)	29,767	99%	57,799	1.9
Other Expense	-	(199,240)	(0.3)	-	-	(199,240)	N/A	(199,240)	N/A
<b>Total Nonoperating Revenues and (Expenses)</b>	<b>(316,382)</b>	<b>(398,116)</b>	<b>(0.8)</b>	<b>(407,940)</b>	<b>(0.6)</b>	<b>9,824</b>	<b>2.4</b>	<b>(81,734)</b>	<b>(25.8)</b>
Income (Loss) Before Loss on Abandonment of Assets & Contributions	2,274,866	6,632,045	11.2	1,976,918	3.5	4,655,127	235.5	4,357,179	191.5
Loss on Abandonment of Assets*	(6,026,640)	0	-	0	-	0	N/A	6,026,640	100.0
<b>Income (Loss) Before Capital Contributions</b>	<b>\$ (3,751,774)</b>	<b>\$ 6,632,045</b>	<b>11.2</b>	<b>\$ 1,976,918</b>	<b>3.5</b>	<b>\$ 4,655,127</b>	<b>235.5</b>	<b>\$ 10,383,819</b>	<b>276.8</b>

\* The loss on abandonment of assets is a one-time adjustment to property previously purchased by the District.

See accompanying independent auditors' report.

**PADRE DAM MUNICIPAL WATER DISTRICT**

SCHEDULE OF CHANGE IN CASH, CASH EQUIVALENTS AND INVESTMENTS  
FOR THE YEAR ENDED JUNE 30, 2014

	Retail	Water Recycling	Sewer	Park	Total Designated	Restricted CEF/ Other	Restricted '09 COP	Other Non-Operating	Grand Total
<b>Cash Flows From Operating Activities:</b>									
Operating Income (Loss)	\$ 2,878,679	\$ 2,019,189	\$ 2,721,818	\$ 620,189	\$ 8,239,875	\$ -	\$ -	\$ -	\$ 8,239,875
Depreciation	4,480,572	643,176	971,951	727,032	6,822,731	-	-	-	6,822,731
Accounts Receivable	1,034,759 *	151,693 *	409,931 *	- *	1,596,383	-	-	-	1,596,383
Accounts Receivable - Other	68,049 *	9,976 *	26,958 *	- *	104,983	-	-	-	104,983
Inventory	(42,759) *	(6,268) *	(16,939) *	- *	(65,966)	-	-	-	(65,966)
Prepaid Expenses	(46,392) *	(6,801) *	(18,379) *	- *	(71,572)	-	-	-	(71,572)
Accounts Payable	278,441 *	40,819 *	110,308 *	- *	429,568	-	-	-	429,568
Accrued Expense and Other Liabilities	74,883 *	10,978 *	29,666 *	- *	115,527	-	-	-	115,527
Deposits & Advances on Construction	38,137 *	5,591 *	15,109 *	- *	58,837	-	-	-	58,837
Other Noncurrent Liabilities	1,386,909 *	203,316 *	549,439 *	- *	2,139,664	-	-	-	2,139,664
Net Cash Provided by Operating Activities	10,151,278	3,071,669	4,799,862	1,347,221	19,370,030	-	-	-	19,370,030
<b>Cash &amp; Cash Equivalents and Investments From Noncapital and Related Financing Activities:</b>									
Property Tax Receipts	2,778,202	-	-	-	2,778,202	-	-	-	2,778,202
Net Cash Provided (Used) by Noncapital and Related Financing Activities	2,778,202	-	-	-	2,778,202	-	-	-	2,778,202
<b>Cash Flows From Capital and Related Financing Activities:</b>									
Acquisition and Construction of Capital Assets	(5,183,648)	(582,812)	(1,076,372)	(584,684)	(7,427,516)	(605,738)	-	-	(8,033,254)
Net Proceeds from Issuance of Long-Term Debt	-	-	-	-	-	-	-	-	0
Principal Payments on Long-Term Debt	(1,274,832)	(816,516)	(279,317)	(311,700)	(2,682,365)	(23,200)	-	-	(2,705,565)
Bond Issuance Costs Paid	0	0	0	0	0	-	-	-	0
Proceeds from Capital Contributions	-	-	-	-	-	2,337,085	-	-	2,337,085
Interest Paid, Net of Amount Capitalized	(2,060,835)	(216,041)	(78,808)	(161,103)	(2,516,787)	(519,638)	-	-	(3,036,425)
Proceeds from Sale of Assets	-	-	-	-	-	-	-	3,445	3,445
Net Cash Provided (Used) by Capital and Related Financing Activities	(8,519,315)	(1,615,369)	(1,434,497)	(1,057,487)	(12,626,668)	1,188,509	-	3,445	(11,434,714)
<b>Cash Flows From Investing Activities:</b>									
Interest Received on Investments	69,801	27,906	66,362	5,211	169,280	28,472	119,218	-	316,970
Net Cash Provided by Investing Activities	69,801	27,906	66,362	5,211	169,280	28,472	119,218	-	316,970
<b>Transfers:</b>									
Transfers	36,037	5,283	14,277	-	55,597	-	-	(55,597)	-
Transfers Sales Proceeds Woodside Property	(188,012)	(33,058)	(105,663)	-	(326,733)	-	-	326,733	-
Transfers 2009 COP	3,426,017	-	-	-	3,426,017	564,273	(3,990,290)	-	-
Transfers LWD Detachment	44,800	-	-	-	44,800	-	-	(44,800)	-
Transfers Debt Service (2009 COP)	0	-	-	-	0	-	-	-	-
Transfers Other	986,160	69,557	(40,160)	58,699	1,074,256	(764,967)	12,029	(321,318)	-
Net Transfers	4,305,002	41,782	(131,546)	58,699	4,273,937	(200,694)	(3,978,261)	(94,982)	-
Net Increase (Decrease) in Cash and Cash Equivalents and Investments	8,784,968	1,525,988	3,300,181	353,644	13,964,781	1,016,287	(3,859,043)	(91,537)	11,030,488
Cash and Cash Equivalents and Investments at Beginning of Year	10,379,973	6,738,047	12,898,170	1,672,997	31,689,187	7,035,443	21,755,741	2,522,148	63,002,519
<b>Cash and Cash Equivalents and Investments at End of Year</b>	<b>\$ 19,164,941</b>	<b>\$ 8,264,035</b>	<b>\$ 16,198,351</b>	<b>\$ 2,026,641</b>	<b>\$ 45,653,968</b>	<b>\$ 8,051,730</b>	<b>\$ 17,896,698</b>	<b>\$ 2,430,611</b>	<b>\$ 74,033,007</b>

\* Note: Allocation (of changes in receivables/payables/other assets) are based upon a constant percentage (overhead allocation percentage) applied throughout the fiscal year.

**PADRE DAM MUNICIPAL WATER DISTRICT**

SCHEDULE OF CHANGE IN CASH, CASH EQUIVALENTS AND INVESTMENTS  
FOR THE YEAR ENDED JUNE 30, 2013

	Retail	Water Recycling	Sewer	Park	Total Designated	Restricted CEF/ Other	Restricted '09 COP	Other Non-Operating	Grand Total
<b>Cash Flows From Operating Activities:</b>									
Operating Income (Loss)	\$ 2,158,658	\$ 1,862,098	\$ 2,345,376	\$ 664,029	\$ 7,030,161	\$ -	\$ -	\$ -	\$ 7,030,161
Depreciation	4,298,471	636,361	963,001	722,789	6,620,622	-	-	-	6,620,622
Accounts Receivable	(435,398) *	(63,828) *	(172,488) *	- *	(671,714)	-	-	-	(671,714)
Accounts Receivable - Other	3,811 *	559 *	1,510 *	- *	5,880	-	-	-	5,880
Inventory	113,481 *	16,636 *	44,957 *	- *	175,074	-	-	-	175,074
Prepaid Expenses	(7,714) *	(1,131) *	(3,056) *	- *	(11,901)	-	-	-	(11,901)
Accounts Payable	(153,599) *	(22,517) *	(60,850) *	- *	(236,966)	-	-	-	(236,966)
Accrued Expense and Other Liabilities	26,960 *	3,952 *	10,680 *	- *	41,592	-	-	-	41,592
Deposits & Advances on Construction	10,901 *	1,598 *	4,318 *	- *	16,817	-	-	-	16,817
Other Noncurrent Liabilities	(290,679) *	(42,613) *	(115,156) *	- *	(448,448)	-	-	-	(448,448)
Net Cash Provided by Operating Activities	5,724,892	2,391,115	3,018,292	1,386,818	12,521,117	-	-	-	12,521,117
<b>Cash &amp; Cash Equivalents and Investments From Noncapital and Related Financing Activities:</b>									
Property Tax Receipts	2,628,275	-	-	-	2,628,275	-	-	-	2,628,275
Net Cash Provided (Used) by Noncapital and Related Financing Activities	2,628,275	-	-	-	2,628,275	-	-	-	2,628,275
<b>Cash Flows From Capital and Related Financing Activities:</b>									
Acquisition and Construction of Capital Assets	(5,414,153)	(134,076)	(536,020)	(455,319)	(6,539,568)	(1,062,048)	-	-	(7,601,616)
Net Proceeds from Issuance of Long-Term Debt	-	-	-	-	-	-	8,045,652	-	8,045,652
Principal Payments on Long-Term Debt	(1,324,067)	(783,521)	(322,199)	(333,190)	(2,762,977)	(14,885)	(7,645,883)	-	(10,423,745)
Bond Issuance Costs Paid	0	0	0	0	0	-	(272,029)	-	(272,029)
Proceeds from Capital Contributions	-	-	-	-	-	1,810,426	-	-	1,810,426
Interest Paid, Net of Amount Capitalized	(2,091,568)	(204,339)	(58,086)	(242,854)	(2,596,847)	(513,485)	-	-	(3,110,332)
Proceeds from Sale of Assets	-	-	-	-	-	-	-	4,005	4,005
Net Cash Provided (Used) by Capital and Related Financing Activities	(8,829,788)	(1,121,936)	(916,305)	(1,031,363)	(11,899,392)	220,008	127,740	4,005	(11,547,639)
<b>Cash Flows From Investing Activities:</b>									
Interest Received on Investments	(5,478)	21,689	38,991	6,754	61,956	33,899	102,272	-	198,127
Net Cash Provided by Investing Activities	(5,478)	21,689	38,991	6,754	61,956	33,899	102,272	-	198,127
<b>Transfers:</b>									
Transfers	(55,686)	(8,164)	(22,061)	-	(85,911)	-	-	85,911	-
Transfers Sales Proceeds Woodside Property	88,417	12,553	42,006	-	142,976	-	-	(142,976)	-
Transfers 2009 COP	3,727,197	-	-	-	3,727,197	622,303	(4,349,500)	-	-
Transfers LWD Detachment	44,800	-	-	-	44,800	-	-	(44,800)	-
Transfers Debt Service (2009 COP)	0	-	-	-	0	-	-	-	-
Transfers Other	(301,694)	(311,203)	184,250	260,145	(168,502)	68,690	(129,447)	229,259	-
Net Transfers	3,503,034	(306,814)	204,195	260,145	3,660,560	690,993	(4,478,947)	127,394	-
Net Increase (Decrease) in Cash and Cash Equivalents and Investments	3,020,935	984,054	2,345,173	622,354	6,972,516	944,900	(4,248,935)	131,399	3,799,880
Cash and Cash Equivalents and Investments at Beginning of Year	7,359,038	5,753,993	10,552,997	1,050,643	24,716,671	6,090,543	26,004,676	2,390,749	59,202,639
<b>Cash and Cash Equivalents and Investments at End of Year</b>	<b>\$ 10,379,973</b>	<b>\$ 6,738,047</b>	<b>\$ 12,898,170</b>	<b>\$ 1,672,997</b>	<b>\$ 31,689,187</b>	<b>\$ 7,035,443</b>	<b>\$ 21,755,741</b>	<b>\$ 2,522,148</b>	<b>\$ 63,002,519</b>

\* Note: Allocation (of changes in receivables/payables/other assets) are based upon a constant percentage (overhead allocation percentage) applied throughout the fiscal year.