

Purissima Hills Water District
Annual Financial Report
For the Fiscal Years Ended June 30, 2014 and 2013



Charles Z. Fedak & Company
Certified Public Accountants
An Accountancy Corporation

Service to the Hills Since 1955

Purissima Hills Water District Board of Directors as of June 30, 2014

<u>Name</u>	<u>Title</u>	<u>Elected/ Appointed</u>	<u>Current Term</u>
Gary Kremen	President	Elected	12/10-12/14
Ernest Solomon	Vice President	Elected	12/12-12/16
Stephen A. Jordan	Director	Elected	12/12-12/16
Robert N. Anderson	Director	Elected	12/10-12/14
Brian Holtz	Director	Elected	12/12-12/16

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

Purissima Hills Water District

Annual Financial Report

For the Fiscal Years Ended June 30, 2014 and 2013

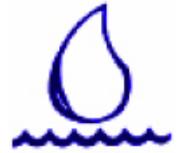
**Purissima Hills Water District
Annual Financial Report
For the Fiscal Years Ended June 30, 2014 and 2013**

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Introductory Section

*Purissima Hills
Water District*



November 12, 2014

Board of Directors
Purissima Hills Water District

Introduction

It is our pleasure to submit the Annual Financial Report for the Purissima Hills Water District (District) for the fiscal years ended June 30, 2014 and 2013, following guidelines set forth by the Governmental Accounting Standards Board. District staff prepared this financial report. The District is ultimately responsible for both the accuracy of the data and the completeness and the fairness of presentation, including all disclosures in this financial report. We believe that the data presented is accurate in all material respects. This report is designed in a manner that we believe necessary to enhance your understanding of the District's financial position and activities.

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

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

District Structure and Leadership

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

District Services

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

District Services, continued

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

Economic Condition and Outlook

The District office is located in the Town of Los Altos Hills in Santa Clara County. The economic outlook for the Northern California region is one of minimal growth, due to the third year of drought. On January 17, 2014, the Governor of the State of California proclaimed a "State of Emergency" calling for a 20% reduction in water consumption over the prior year. The Districts' water sales income is expected to decline due to the foreseen consumption reductions.

Internal Control Structure

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

Budgetary Control

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

Investment Policy

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

Water Rates and District Revenues

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

Audit and Financial Reporting

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

Other References

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

Acknowledgements

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

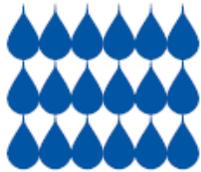
Respectfully submitted,



Patrick Walter
General Manager

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Financial Section



Charles Z. Fedak, CPA, MBA
Paul J. Kaymark, CPA
Christopher J. Brown, CPA

Charles Z. Fedak & Company

Certified Public Accountants
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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Purissima Hills Water District (District) as of and for the years ended June 30, 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.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of June 30, 2014 and 2013, and the respective changes in financial position, and, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report, continued

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 12, 2014, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance. This report can be found on pages 26 and 27.

Charles Z. Fedak & Company CPAs - An Accountancy Corporation

Charles Z. Fedak & Company, CPAs – An Accountancy Corporation

Cypress, California

November 12, 2014

Purissima Hills Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2014 and 2013

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Purissima Hills Water District (District) provides an introduction to the financial statements of the District for the fiscal years ended June 30, 2014 and 2013. The two year presentation is provided for comparative purposes. We encourage readers to consider the information presented here in conjunction with the transmittal letter in the Introductory Section and with the basic financial statements and related notes, which follow this section.

Financial Highlights

- The District's net position increased 16.8%, or \$3,647,925 to \$25,303,453 in fiscal year 2014, as a result of current year operations. In 2013, the District's net position increased 7.0%, or \$1,418,432 to \$21,655,528, as a result of current year operations.
- The District's operating revenues increased 1.7%, or \$96,169 in 2014, primarily due a \$125,112 increase in water consumption sales, which was offset by a decrease of \$33,097 in other charges. In 2013, the District's operating revenues increased 18.3%, or \$862,780, primarily due to a \$843,364 increase in water consumption sales.
- The District's operating expenses increased 0.1%, or \$2,582 in 2014, primarily due as a result of current year operations. In 2013, the District's operating expenses decreased 1.3%, or \$58,500 in 2013, primarily due to an increase in source of supply expenses of \$425,088, which was offset by a decrease in transmission and distribution expenses of \$265,546 and general administrative expenses of \$246,705.

Required Financial Statements

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

The Statement of Net Position includes all of the District's investments in resources and obligations to creditors including: assets, deferred outflows of resources, liabilities, and deferred inflows of resources. It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period.

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of the District

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

Purissima Hills Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2014 and 2013

Financial Analysis of the District, continued

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

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 15 through 25.

Statements of Net Position

Condensed Statements of Net Position

	<u>2014</u>	<u>2013</u>	<u>Change</u>
Assets:			
Current assets	\$ 3,564,564	3,123,160	441,404
Capital assets, net	<u>23,359,160</u>	<u>20,063,810</u>	<u>3,295,350</u>
Total assets	<u>26,923,724</u>	<u>23,186,970</u>	<u>3,736,754</u>
Liabilities:			
Current liabilities	1,620,271	1,131,442	488,829
Non-current liabilities	<u>-</u>	<u>400,000</u>	<u>(400,000)</u>
Total liabilities	<u>1,620,271</u>	<u>1,531,442</u>	<u>88,829</u>
Net position:			
Net investment in capital assets	22,959,160	19,263,810	3,695,350
Unrestricted	<u>2,344,293</u>	<u>2,391,718</u>	<u>(47,425)</u>
Total net position	<u>\$ 25,303,453</u>	<u>21,655,528</u>	<u>3,647,925</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets of the District exceeded liabilities by \$25,303,453 and \$21,655,528, as of June 30, 2014 and 2013, respectively.

By far the largest portion of the District's net position (91% as of June 30, 2014, and 89% as of June 30, 2013) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are not available for future spending.

At the end of fiscal years 2014 and 2013, the District showed a positive balance in its unrestricted net assets of \$2,344,293 and \$2,391,718, respectively, which may be utilized in future years. See note 7 for further discussion.

Purissima Hills Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2014 and 2013

Statements of Revenues, Expenses and Changes in Net Position

Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>2014</u>	<u>2013</u>	<u>Change</u>
Revenues:			
Operating revenues	\$ 5,676,798	5,580,629	96,169
Non-operating revenues	<u>864,247</u>	<u>829,332</u>	<u>34,915</u>
Total revenues	<u>6,541,045</u>	<u>6,409,961</u>	<u>131,084</u>
Expenses:			
Operating expenses	4,470,221	4,467,639	2,582
Depreciation and amortization	748,946	713,419	35,527
Non-operating expenses	<u>1,438</u>	<u>3,330</u>	<u>(1,892)</u>
Total expenses	<u>5,220,605</u>	<u>5,184,388</u>	<u>36,217</u>
Net income before capital contributions	<u>1,320,440</u>	<u>1,225,573</u>	<u>94,867</u>
Capital contributions:	<u>2,327,485</u>	<u>192,859</u>	<u>2,134,626</u>
Change in net position	3,647,925	1,418,432	2,229,493
Net position – beginning of year	<u>21,655,528</u>	<u>20,237,096</u>	<u>1,418,432</u>
Net position – end of year	<u>\$ 25,303,453</u>	<u>21,655,528</u>	<u>3,647,925</u>

The statement of revenues, expenses and changes of net position shows how the District's net position changed during the fiscal years. In the case of the District, net position increased by \$3,647,925 and \$1,418,432 for the fiscal years ended June 30, 2014 and 2013, respectively.

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

In 2014, the District's operating revenues increased 1.7%, or \$96,169 in 2014, primarily due a \$125,112 increase in water consumption sales, which was offset by a decrease of \$33,097 in other charges.

In 2013, the District's operating revenues increased 18.3%, or \$862,780 primarily, due to a \$843,364 increase in water consumption sales.

In 2014, the District's operating expenses increased 0.1%, or \$2,582, primarily due as a result of current year operations.

In 2013, the District's operating expenses decreased 1.3%, or \$58,500, primarily due to an increase in source of supply expenses of \$425,088, which was offset by a decrease in transmission and distribution expenses of \$265,546 and general administrative expenses of \$246,705.

Purissima Hills Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2014 and 2013

Capital Asset Administration

At the end of fiscal year 2014 and 2013, the District's investment in capital assets amounted to \$23,359,160 and \$20,063,810 (net of accumulated depreciation), respectively. This investment in capital assets includes land, transmission and distribution systems, tanks, pumps, buildings, equipment, vehicles and construction-in-process, etc. Major capital assets additions during the year include improvements to portions the District's transmission and distribution system.

Changes in capital assets amounts for 2014 were as follows:

	<u>Balance 2013</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2014</u>
Capital assets:				
Non-depreciable assets	\$ 490,760	4,014,796	(2,914,354)	1,591,202
Depreciable assets	30,354,778	2,943,854	-	33,298,632
Accumulated depreciation and amortization	<u>(10,781,728)</u>	<u>(748,946)</u>	<u>-</u>	<u>(11,530,674)</u>
Total capital assets, net	<u>\$ 20,063,810</u>	<u>6,209,704</u>	<u>(2,914,354)</u>	<u>23,359,160</u>

Changes in capital assets amounts for 2013 were as follows:

	<u>Balance 2012</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2013</u>
Capital assets:				
Non-depreciable assets	\$ 948,218	1,656,451	(2,113,909)	490,760
Depreciable assets	28,240,869	2,113,909	-	30,354,778
Accumulated depreciation and amortization	<u>(10,068,309)</u>	<u>(713,419)</u>	<u>-</u>	<u>(10,781,728)</u>
Total capital assets, net	<u>\$ 19,120,778</u>	<u>3,056,941</u>	<u>(2,113,909)</u>	<u>20,063,810</u>

Debt Administration

Changes in long-term debt amounts for 2014 were as follows:

	<u>Balance 2013</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2014</u>
Long-term debt:				
LAHCFD loan payable	\$ 800,000	-	(400,000)	400,000
Total loans payable	800,000	<u>-</u>	<u>(400,000)</u>	400,000
Less: current portion due	<u>(400,000)</u>			<u>(400,000)</u>
Long-term portion due	<u>\$ 400,000</u>			<u>-</u>

Changes in long-term debt amounts for 2013 were as follows:

	<u>Balance 2012</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2013</u>
Long-term debt:				
LAHCFD loan payable	\$ 1,200,000	-	(400,000)	800,000
Total loans payable	1,200,000	<u>-</u>	<u>(400,000)</u>	800,000
Less: current portion due	<u>(400,000)</u>			<u>(400,000)</u>
Long-term portion due	<u>\$ 800,000</u>			<u>400,000</u>

Purissima Hills Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2014 and 2013

Conditions Affecting Current Financial Position

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

Requests for Information

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

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Basic Financial Statements

Purissima Hills Water District
Statements of Net Position
June 30, 2014 and 2013

	2014	2013
Current assets:		
Cash and cash equivalents (note 2)	\$ 2,482,472	1,919,631
Accrued interest receivable	1,047	847
Accounts receivable – water sales and services, net	541,736	690,639
Accounts receivable – other	36,767	56,251
Water in storage inventory	18,337	21,699
Materials and supplies inventory	439,046	383,282
Prepaid expenses and deposits	45,159	50,811
Total current assets	3,564,564	3,123,160
Non-current assets:		
Capital assets, net (note 3)	23,359,160	20,063,810
Total non-current assets	23,359,160	20,063,810
Total assets	26,923,724	23,186,970
Current liabilities:		
Accounts payable and accrued expenses	1,029,608	663,129
Accrued salaries and wages	7,673	8,264
Customer deposits and unearned revenue	55,888	53,288
Contractor retention	124,164	-
Long-term liabilities – due within one year:		
Compensated absences (note 4)	2,938	6,761
Long-term debt – current portion (note 5)	400,000	400,000
Total current liabilities	1,620,271	1,131,442
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Long-term debt (note 5)	-	400,000
Total non-current liabilities	-	400,000
Total liabilities	1,620,271	1,531,442
Net position: (note 7)		
Net investment in capital assets	22,959,160	19,263,810
Unrestricted	2,344,293	2,391,718
Total net position	\$ 25,303,453	21,655,528

See accompanying notes to the basic financial statements

Purissima Hills Water District
Statements of Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended June 30, 2014 and 2013

	2014	2013
Operating revenues:		
Water consumption sales	\$ 5,136,252	5,011,140
Service charges	481,718	477,564
Other charges	58,828	91,925
Total operating revenues	5,676,798	5,580,629
Operating expenses:		
Source of supply	2,753,400	2,848,035
Pumping	272,362	256,454
Transmission and distribution	718,308	644,987
Water treatment	9,533	7,333
Customer accounts	112,679	102,789
General and administrative	603,939	608,041
Total operating expenses	4,470,221	4,467,639
Operating income before depreciation and amortization	1,206,577	1,112,990
Depreciation and amortization	(748,946)	(713,419)
Operating income (loss)	457,631	399,571
Non-operating revenue (expense)		
Property taxes	658,704	604,628
Rental income – cellular antennas	201,384	220,944
Investment earnings and interest	4,159	3,760
Interest expense – long-term debt	(1,438)	(3,330)
Total non-operating revenues, net	862,809	826,002
Net income before capital contributions	1,320,440	1,225,573
Capital contributions:		
Connection fees	34,984	85,360
Contributed capital – Fire Department	2,292,501	107,499
Total capital contributions	2,327,485	192,859
Change in net position	3,647,925	1,418,432
Net position – beginning of year	21,655,528	20,237,096
Net position – end of year	\$ 25,303,453	21,655,528

See accompanying notes to the basic financial statements

Purissima Hills Water District
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Cash receipts from customers for water sales and services	\$ 5,850,807	5,461,525
Cash paid to employees for salaries and wages	(868,158)	(822,492)
Cash paid to vendors and suppliers for materials and services	(3,289,770)	(3,628,290)
Net cash provided by operating activities	1,692,879	1,010,743
Cash flows from non-capital financing activities:		
Proceeds from rental income – cellular antennas	201,384	220,944
Proceeds from property taxes	658,704	604,628
Net cash provided by non-capital financing activities	860,088	825,572
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(4,044,296)	(1,656,451)
Payment (receipt) of contractor retentions	124,164	(4,812)
Capital contributions	2,327,485	192,859
Principal paid on long-term debt	(400,000)	(400,000)
Interest paid on long-term debt	(1,438)	(3,330)
Net cash used in capital and related financing activities	(1,994,085)	(1,871,734)
Cash flows from investing activities:		
Interest earnings	3,959	4,147
Net cash provided by investing activities	3,959	4,147
Net increase (decrease) in cash and cash equivalents	562,841	(31,272)
Cash and cash equivalents – beginning of year	1,919,631	1,950,903
Cash and cash equivalents – end of year	\$ 2,482,472	1,919,631
Reconciliation of cash and cash equivalents to statements of financial position:		
Cash and cash equivalents	\$ 2,482,472	1,919,631
Total cash and cash equivalents	\$ 2,482,472	1,919,631

Continued on next page

See accompanying notes to the basic financial statements

Purissima Hills Water District
Statements of Cash Flows, continued
For the Fiscal Years Ended June 30, 2014 and 2013

	2014	2013
Reconciliation of operating income to net cash used		
in operating activities:		
Operating income	\$ <u>457,631</u>	<u>399,571</u>
Adjustments to reconcile operating income to net cash provided by		
operating activities:		
Deprecation and amortization	748,946	713,419
Changes in assets and liabilities:		
(Increase) Decrease in assets:		
Accounts receivable	168,387	(125,127)
Inventory	(52,402)	(7,292)
Prepaid expenses and deposits	5,652	(17,767)
Note receivable	-	46,165
Increase (Decrease) in liabilities:		
Accounts payable and accrued expenses	366,479	4,242
Accrued salaries and wages	(591)	(5,324)
Compensated absences	(3,823)	(3,167)
Customer deposits and deferred revenue	<u>2,600</u>	<u>6,023</u>
Total adjustments	<u>1,235,248</u>	<u>611,172</u>
Net cash provided by operating activities	\$ <u><u>1,692,879</u></u>	<u><u>1,010,743</u></u>
Non-cash financing and investing, capital, and financing transaction:		
Change in fair-market value of funds deposited with LAIF	\$ <u>567</u>	<u>381</u>

See accompanying notes to the basic financial statements

Purissima Hills Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

Note 1 –Summary of Significant Accounting Policies

Reporting Entity

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

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

Basis of Accounting and Measurement Focus

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

Operating revenues and expenses, such as water sales and water purchases, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Management, administration, and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

Financial Reporting

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

Use of Estimates

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

Cash and Cash Equivalents

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

Purissima Hills Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

Note 1 – Summary of Significant Accounting Policies, (continued)

Investments

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

Accounts Receivable and Allowance for Uncollectible Accounts

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

Property Taxes and Assessments

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

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

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

Materials and Supplies Inventory

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

Prepaid Expenses

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

Compensated Absences

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

Water Sales

Water sales are billed on a monthly cyclical basis.

Capital Contributions

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

Purissima Hills Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

Note 1 – Summary of Significant Accounting Policies, (continued)

Capital Assets

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

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

Net Position

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

Net Investment in Capital Assets – Investment in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and amortization, and reduced by outstanding balances of any debt, or other long-term borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – Restricted consists of assets that have restrictions placed upon their use by external constraints imposed either by creditors (debt covenants), grantors, contributors, or laws and regulations of other governments or constraints imposed by law through enabling legislation.

Unrestricted – Unrestricted consists of any remaining balance of the District’s net position that do not meet the definition of “restricted” or “net investment in capital assets”.

Budgetary Policies

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

Note 2 – Cash and Investments

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

	2014	2013
Cash and cash equivalents	\$ 2,482,472	1,919,631

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

	2014	2013
Petty cash	\$ 43	543
Deposits with financial institutions	583,871	524,417
Local Agency Investment Fund (LAIF)	1,898,558	1,394,671
Total cash and cash equivalents	\$ 2,482,472	1,919,631

Purissima Hills Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

Note 2 – Cash and Investments, continued

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

	2014	2013
Deposits held with California Local Agency Investment Fund (LAIF)	232 days	278 days

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

The table below identifies the investment types that are authorized by the District in accordance with the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

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

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits, or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits:

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. Of the bank balances, up to \$250,000 held at each institution were federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Code and the District's investment policy contain legal and policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

Purissima Hills Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

Note 2 – Cash and Investments, continued

Investment in State Investment Pool

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

Interest Rate Risk

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

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

Concentration of Credit Risk

The District's investment policy contains no limitations on the amounts that can be invested in any one issuer as beyond that stipulated by the California Government Code. There were no investments in any one issuer (other than for U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District's investments at June 30, 2014 and 2013, respectively.

Purissima Hills Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

Note 3 – Capital Assets

Changes in capital assets for 2014 were as follows:

	<u>Balance 2013</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2014</u>
Non-depreciable assets:				
Land & land rights	\$ 180,099	-	-	180,099
Construction-in-process	<u>310,661</u>	<u>4,014,796</u>	<u>(2,914,354)</u>	<u>1,411,103</u>
Total non-depreciable assets	<u>490,760</u>	<u>4,014,796</u>	<u>(2,914,354)</u>	<u>1,591,202</u>
Depreciable assets:				
Supply plant	235,560	-	-	235,560
Pumping plant	2,434,587	-	-	2,434,587
Transmission and distribution mains	25,577,264	2,914,354	-	28,491,618
General plant and equipment	<u>2,107,367</u>	<u>29,500</u>	-	<u>2,136,867</u>
Total depreciable assets	30,354,778	2,943,854	-	33,298,632
Accumulated depreciation and amortization	<u>(10,781,728)</u>	<u>(748,946)</u>	-	<u>(11,530,674)</u>
Total depreciable assets, net	<u>19,573,050</u>	<u>2,194,908</u>	-	<u>21,767,958</u>
Total capital assets, net	<u>\$ 20,063,810</u>			<u>23,359,160</u>

In 2014, major capital assets additions include upgrades and extensions of the District's transmission and distribution systems mains and general plant and equipment.

Changes in capital assets for 2013 were as follows:

	<u>Balance 2012</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2013</u>
Non-depreciable assets:				
Land & land rights	\$ 180,099	-	-	180,099
Construction-in-process	<u>768,119</u>	<u>1,656,451</u>	<u>(2,113,909)</u>	<u>310,661</u>
Total non-depreciable assets	<u>948,218</u>	<u>1,656,451</u>	<u>(2,113,909)</u>	<u>490,760</u>
Depreciable assets:				
Supply plant	235,560	-	-	235,560
Pumping plant	1,790,536	644,051	-	2,434,587
Transmission and distribution mains	24,107,406	1,469,858	-	25,577,264
General plant and equipment	<u>2,107,367</u>	-	-	<u>2,107,367</u>
Total depreciable assets	28,240,869	2,113,909	-	30,354,778
Accumulated depreciation and amortization	<u>(10,068,309)</u>	<u>(713,419)</u>	-	<u>(10,781,728)</u>
Total depreciable assets, net	<u>18,172,560</u>	<u>1,400,490</u>	-	<u>19,573,050</u>
Total capital assets, net	<u>\$ 19,120,778</u>			<u>20,063,810</u>

In 2013, major capital assets additions include upgrades and extensions of the District's transmission and distribution systems mains and pumping plant.

Construction-In-Process

The District is involved in various construction projects throughout the year. Once completed, projects are capitalized and depreciated over the life of the asset. The balance of construction-in-process was \$1,411,103 and \$310,661 at June 30, 2014 and 2013, respectively.

Purissima Hills Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

Note 4 – Compensated Absences

<u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u>
<u>2013</u>			<u>2014</u>
\$ <u>6,761</u>	<u>50,023</u>	<u>(53,846)</u>	<u>2,938</u>

<u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u>
<u>2012</u>			<u>2013</u>
\$ <u>9,928</u>	<u>47,810</u>	<u>(50,977)</u>	<u>6,761</u>

Note 5 – Long-Term Debt

Changes in long-term debt amounts for 2014 were as follows:

	<u>Balance</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance</u>
	<u>2013</u>			<u>2014</u>
Long-term debt:				
LAHCFD loan payable	\$ <u>800,000</u>	<u>-</u>	<u>(400,000)</u>	<u>400,000</u>
Total loans payable	800,000	<u>-</u>	<u>(400,000)</u>	400,000
Less: current portion due	<u>(400,000)</u>			<u>(400,000)</u>
Long-term portion due	\$ <u>400,000</u>			<u>-</u>

Changes in long-term debt amounts for 2013 were as follows:

	<u>Balance</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance</u>
	<u>2012</u>			<u>2013</u>
Long-term debt:				
LAHCFD loan payable	\$ <u>1,200,000</u>	<u>-</u>	<u>(400,000)</u>	<u>800,000</u>
Total loans payable	1,200,000	<u>-</u>	<u>(400,000)</u>	800,000
Less: current portion due	<u>(400,000)</u>			<u>(400,000)</u>
Long-term portion due	\$ <u>800,000</u>			<u>400,000</u>

Los Altos Hills County Fire District Loan

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

Purissima Hills Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

Note 5 – Long-Term Debt, continued

Los Altos Hills County Fire District Loan, continued

Principal and estimated interest payments on the loan are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 400,000	854	400,854
Total	400,000	<u>854</u>	<u>400,854</u>
Less current portion	<u>(400,000)</u>		
Total non-current	\$ <u>-</u>		

Note 6 – Defined Benefit Pension Plan

Plan Description

The District contributes to the California Public Employees Retirement System (CalPERS), a cost-sharing multi-employer defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public agencies within the State of California. Benefit provisions and all other requirements are established by state statute and the District. Copies of CalPERS annual financial report may be obtained from their executive Office: 400 P Street, Sacramento, CA 95814.

Funding Policy

The contribution rate for plan members in the CalPERS 2.0% at 60 Risk Pool Retirement Plan is 7% of their annual covered salary and is paid by the District in lieu of approved COLA increases from 1998 to 2000. The District makes these contributions required of District employees on their behalf and for their account. Also, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The required employer contribution rates are equal to the annual pension costs (APC) percentage of payroll for fiscal years 2014, 2013 and 2012 as noted below. 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. For Fiscal years 2014, 2013 and 2012, the District's annual contributions for the CalPERS plan were equal to the Agencies required and actual contributions for each fiscal year as follows:

Three Year Trend Information:

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>	<u>APC Percentage of Payroll</u>
2011-2012	\$ 28,787	100%	-	4.278%
2012-2013	20,774	100%	-	3.725%
2013-2014	43,062	100%	-	7.505%

Purissima Hills Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

Note 7– Net Position

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

	2014	2013
Net investment in capital assets:		
Capital assets, net	\$ 23,359,160	20,063,810
Loan payable, current	(400,000)	(400,000)
Loan payable, non-current	-	(400,000)
Total net investment in capital assets	22,959,160	19,263,810
Unrestricted net position:		
Non-spendable net position:		
Water in storage inventory	18,337	21,699
Materials and supplies inventory	439,046	383,282
Prepaid expenses and deposits	45,159	50,811
Total non-spendable net position	502,542	455,792
Spendable net position is designated as follows:		
Undesignated net position reserve	1,841,751	1,935,926
Total spendable net position	1,841,751	1,935,926
Total unrestricted net position	2,344,293	2,391,718
Total net position	\$ 25,303,453	21,655,528

Note 8 – Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is insured for a variety of potential exposures. The following is a summary of the insurance policies carried by the District as of June 30, 2014:

- Property: \$60,000 to \$100,000,000 with liability limits varying by property type with a \$5,000 deductible.
- Boiler and machinery: \$1,000,000 to \$100,000,000 based on type of equipment and/or event.
- Underground storage tank pollution liability: \$3,000,000 per environmental accident claim with \$3,000,000 annual aggregate limit with \$500,000 deductible.
- Liability coverage: \$9,000,000 to \$40,000,000 excess insurance per occurrence.
- Crime coverage: \$100,000 per claim with a \$1,000 deductible.
- Workers compensation: \$2,000,000 each accident or each employee by disease.

Purissima Hills Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

Note 9 – Governmental Accounting Standards Board Statements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2014, that has effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 68

In June 2012, the GASB issued Statement No. 68 – Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, as well as the requirements of Statement No. 50, Pension Disclosures, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The provisions of Statement 68 are effective for fiscal years beginning after June 15, 2014. The impact of the implementation of this Statement to the Authority's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 69

In January 2013, the GASB issued Statement No. 69 – Government Combinations and Disposals of Government Operations. The objective of this Statement is to provide new accounting and financial reporting standards for government mergers and acquisitions and for government operations that have been transferred or sold. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2013. The impact of the implementation of this Statement to the Authority's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 70

In April 2013, the GASB issued Statement No. 70 – Accounting and Financial Reporting for Non-exchange Guarantees. Provisions of this Statement require that governments that extend non-exchange financial guarantees to recognize a liability when qualitative factors and historic data, if any, indicate that it is more likely than not that the government will be required to make a payments on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows related to the guarantee expected to be incurred. When there is no best estimate but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2013. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Purissima Hills Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

Note 9 – Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 71

In November 2013, the GASB issued Statement No. 71 – Pension Transition for Contributions made Subsequent to the Measurement Date – an amendment of GASB No. 68. The objective of this statement is to address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The issue relates to amounts associated with contributions, if any, made by state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government’s beginning net pension liability. The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement No. 68 in the accrual-basis financial statements of employers and non-employer contributing entities. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68.

Note 10 – Commitments and Contingencies

Grant Awards

Grant funds received by the District are subject to an audit by the grantor agencies. Such an audit could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the District believes that such disallowances, if any, would not be significant. The District has not received grant funding in fiscal years ended June 30, 2014 and 2013, respectively.

Litigation

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

Note 12 – Subsequent Event

Events occurring after June 30, 2014 have been evaluated for possible adjustment to the financial statements or disclosure as of November 12, 2014, which is the date the financial statements were available to be issued.

Report on Internal Controls and Compliance



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the Purissima Hills Water District (District), as of and for the years June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated November 12, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

Purpose of this Report

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



Charles Z. Fedak = Company CPAs - An Accountancy Corporation

Charles Z. Fedak & Company, CPAs - An Accountancy Corporation
Cypress, California
November 12, 2014