SOUTH SAN JOAQUIN
IRRIGATION DISTRICT

Annual Financial Report 2014

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South San Joaquin Irrigation District

Annual Financial Report

December 31, 2014 and 2013

Table of Contents

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Auditor’s Report

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
South San Joaquin Irrigation District
Manteca, California

Report on the Financial Statements

We have audited the accompanying financial statements of the South San Joaquin Irrigation District (the District) as of and for the years ended December 31, 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 an opinion 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 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 of 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2014 and 2013 and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

To the Board of Directors
South San Joaquin Irrigation District

Report on Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of funding progress for the other postemployment benefits plan, as listed in the accompanying table of contents, 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.

Richardson & Company, LLP

May 15, 2015

Management's Discussion and Analysis

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Introduction

In this discussion and analysis, management provides an overview of the South San Joaquin Irrigation District's ("the District" or "SSJID") financial position at December 31, 2014 and 2013 and its financial performance for the years then ended. Condensed financial information from 2012 is also presented for comparison only. Limited information is presented about conditions and events that may affect the District's future financial position and performance. The intent is to provide context for understanding the financial statements and the District's prospects, and assistance interpreting the financial statements. This discussion and analysis presents management's perspective and should be read in conjunction with the District's financial statements and accompanying notes which follow this discussion and analysis.

Financial Statements

The District's financial statements include a balance sheet; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These financial statements, together with the related footnotes, are known as the "basic financial statements" and comply with generally accepted accounting principles, which for all state and local governments including the District, are set forth in Governmental Accounting Standards Board (GASB) Statements. In many, but not all cases, GASB Statements incorporate the provisions of Financial Accounting Standards Board Statements which establish generally accepted accounting principles for nongovernmental entities. The District's activities are business type activities and are accounted for as an enterprise fund. The accounting principles for an enterprise fund more closely resemble those of a commercial entity than a government.

Balance Sheet

The balance sheet provides information about assets, deferred outflows, obligations (liabilities), deferred inflows of resources, and net position of the District at a specific point in time. All amounts (except for investments in marketable debt securities) are shown at cost. Therefore, the liabilities, deferred inflows of resources, and net position sections of this statement reveal the sources of the District's capital, and the assets and deferred outflows of resources section shows how the capital has been used. The net position section reveals the life-to-date results of operations. Current assets and current liabilities are shown separately from other assets and liabilities to enable the reader to evaluate the adequacy of the District's working capital. Working capital is the excess of current assets over current liabilities, and current assets and current liabilities are those unrestricted amounts which liquidate within one year.

Statement of Revenues, Expenses, and Changes in Net Position

The statement of revenues, expenses and changes in net position provides information regarding the District's financial performance during the year. The difference between revenues and expenses is the change in net position for the period. The total net position in the balance sheet represents the life-to-date accumulation of changes in net position.

Revenues earned and expenses incurred during the year are presented in two categories: operating and nonoperating. This allows the reader to evaluate the financial results of operating activities separately from other sources of income and expense.

Earnings of the Tri-Dam entities are shown as nonoperating revenues because the District delegates operation of those activities to the joint venture organization (Tri-Dam Project) and the Tri-Dam Power Authority. The statement ends by showing how net income for the year, including capital contributions, accounts for the change in net position that occurred during the year.

Statement of Cash Flows

Because revenues and expenses are not identical to cash flows, generally accepted accounting principles require the statement of cash flows. The statement of cash flows reports sources and uses of cash in four categories: operating activities, noncapital financing activities, capital financing activities, and investing activities. The statement also presents a reconciliation of the differences between net income from operations and net cash flows from operations.

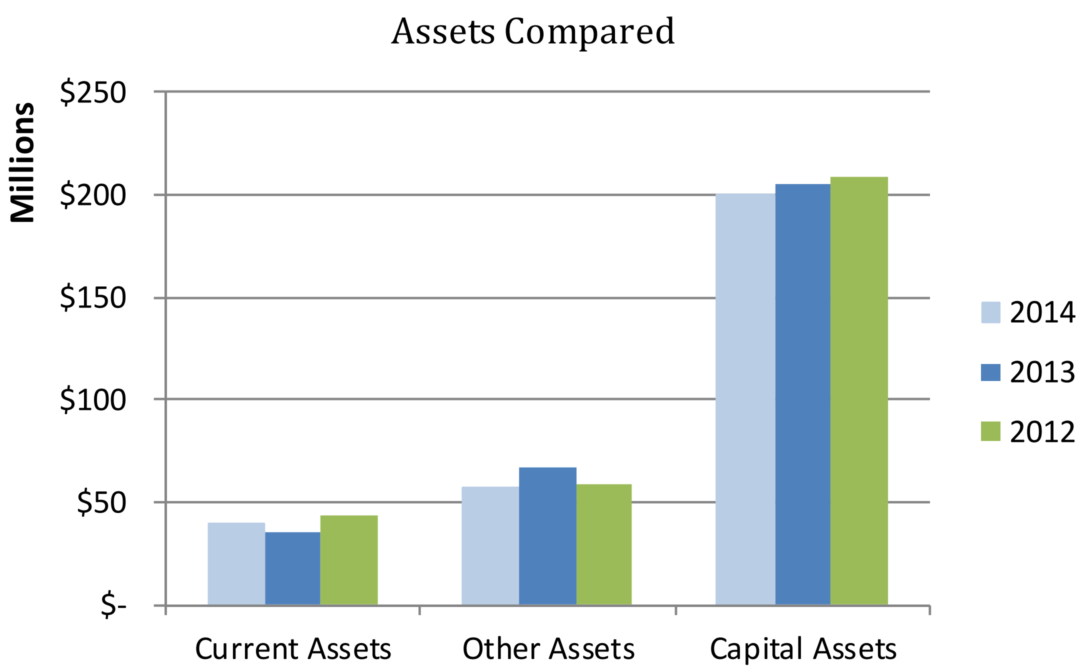
Financial Highlights

Highlights from the financial statements are discussed below.

Balance Sheet Discussion

Condensed Balance Sheets
As of December 31

	2014	2013	2012
Current assets	$ 39,311,448	$ 35,675,512	$ 44,070,323
Other assets and investments	57,410,873	67,061,686	59,093,030
Capital assets	199,974,161	205,478,640	209,011,181
Total assets	296,696,482	308,215,838	312,174,534
Deferred outflow on refunding of long term debt	365,100	512,864	678,270
Total assets and deferred outflows	$ 297,061,582	$ 308,728,702	$ 312,852,804
Current liabilities	$ 3,654,137	$ 5,864,015	$ 6,445,405
Long-term liabilities	10,615,917	13,251,361	16,660,574
Total Liabilities	14,270,054	19,115,376	23,105,979
Net investment in capital assets	191,716,800	192,762,414	194,048,766
Restricted net position	6,623,733	5,641,990	6,504,939
Unrestricted position	84,450,995	91,208,922	89,193,120
Total net position	282,791,528	289,613,326	289,746,825
Total liabilities and net position	$ 297,061,582	$ 308,728,702	$ 312,852,804



- Current assets increased $3.6 million in 2014. The change was caused by maturities of noncurrent investments, which resulted in an increase in cash and cash equivalents which were not yet reinvested at year end.

- Current assets decreased $8.4 million in 2013. The decline was caused by transfers of cash and cash equivalents and current investments in marketable securities into noncurrent investments.

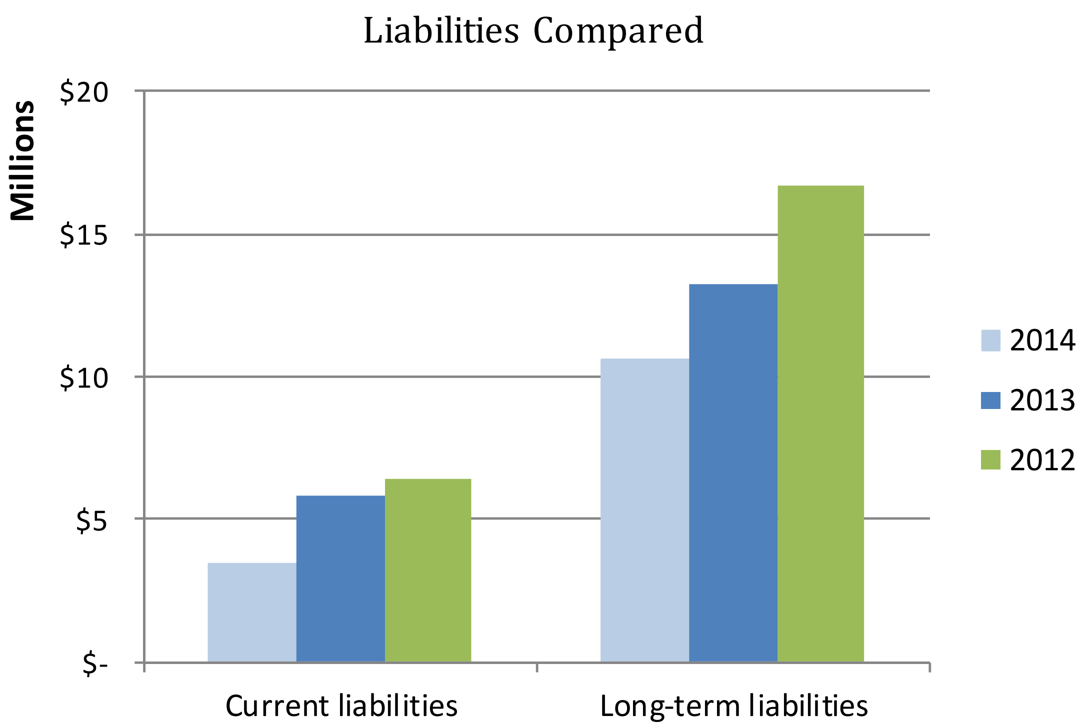
- Other assets decreased by $9.7 million in 2014 due to maturities of noncurrent investments.

- Other assets increased $8.0 million in 2013 as cash and cash equivalents and funds invested in current investments in marketable securities were used to purchase noncurrent investments.

- In 2014 capital assets decreased $5.5 million due to depreciation, which exceeded $1.3 million of capital asset additions.

- In 2013 capital assets decreased $3.5 million due to $6.8 million of depreciation expense, while there were $3.7 million of additions to capital assets, and a write-off of $400,000 of work-in-progress to materials and supplies expense, as explained in note 6 to the financial statements. The net result was that capital assets decreased $3.5 million.

- The deferred outflow on refunding of long-term debt decreased $148,000 in 2014 and $165,000 in 2013 due to scheduled amortization over the remaining term of the 2012A bonds. The deferred outflow arose in 2012 when the 2008A certificates of participation were refunded by the issuance of the 2012A bond series. The amount paid into escrow by the District to defease the 2008A certificates of participation exceeded the book value of the 2008A debt and this excess is the original amount of the deferred outflow. The 2008A debt was defeased more than a year in advance of the next available call date so the defeasing escrow had to be sufficient to cover some interest payments as well as the principal amount of the outstanding 2008A certificates of participation. Mostly for this reason, the payment to escrow was more than the book value of the 2008A debt.



- Current liabilities dropped by $2.2 million during 2014 because of the partial defeasance of the 2012A Bonds and the discontinuation of the on-farm water conservation program. The 2015 maturities of the 2012A Bonds were defeased in 2014 so the current portion of the 2012A Bonds is zero at December 31, 2014. After the on-farm conservation program was discontinued in early 2014 no further liability was incurred to reimburse irrigators for their conservation projects, while reimbursements continued to reduce the existing liability.

- Current liabilities fell by nearly $600,000 in 2013 as accounts payable related to capital asset acquisition and construction decreased when a project to line part of the main distribution canal was completed in 2013.

- Principal reduction on the 2012A Bonds was the primary cause for a $2.6 million decline in long-term liabilities during 2014.

- Long-term liabilities declined by $3.4 million in 2013. This was mostly attributable to principal reduction on outstanding bonds. In 2013 a reduction in the liability for compensated absences accounted for $1 million of the decline in long-term liabilities. The liability for compensated absences includes an estimate of how much sick leave will be used or cashed out in the future. A change in policy for estimating this amount brought about the decrease in 2013.

- The components of changes in net position for each year are detailed in the statement of revenues, expenses, and changes in net position.

- Restricted net position consists of restricted assets less associated liabilities of which there are none. Restricted net position is equal to total restricted assets in the table below.

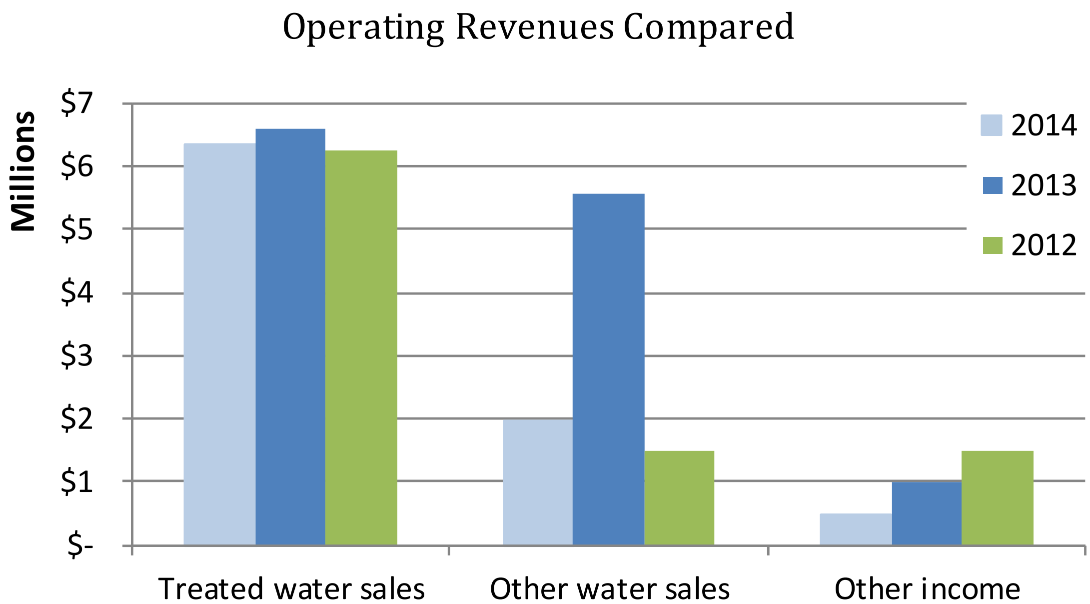
Restricted Assets	2014	2013	2012
Debt service reserve fund	$ 1,801,025	$ 1,803,005	$ 1,798,060
Construction and capital replacement funds - water treatment	4,815,404	3,822,157	4,675,932
Accrued interest receivable on restricted investments	7,304	16,828	30,947
Total restricted assets	$ 6,623,733	$ 5,641,990	$ 6,504,939

Revenues and Expenses Discussion

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

For the Years Ended December 31

	2014	2013	2012
Treated water sales	$ 6,352,507	$ 6,572,247	$ 6,258,240
Other water sales	1,960,041	5,566,091	1,490,638
Other income	478,625	1,016,160	1,495,099
Total Operating Revenues	8,791,173	13,154,498	9,243,977
Labor	11,965,939	10,806,462	10,891,054
Other operating and maintenance	3,371,524	4,974,155	4,312,502
General and administrative	3,645,789	3,083,231	3,501,151
Depreciation	6,813,750	6,786,478	6,342,879
Total Operating Expenses	25,797,002	25,650,326	25,047,586
Net Loss from Operations	(17,005,829)	(12,495,828)	(15,803,609)
Net Nonoperating Revenues	8,946,983	11,103,925	9,849,354
Net Loss before Contributions	(8,058,846)	(1,391,903)	(5,954,255)
Capital contributions	1,237,048	1,258,404	1,640,885
Change in Net Position	(6,821,798)	(133,499)	(4,313,370)
Net Position, Beginning of Year	289,613,326	289,746,825	294,060,195
Net Position, End of Year	$ 282,791,528	$ 289,613,326	$ 289,746,825



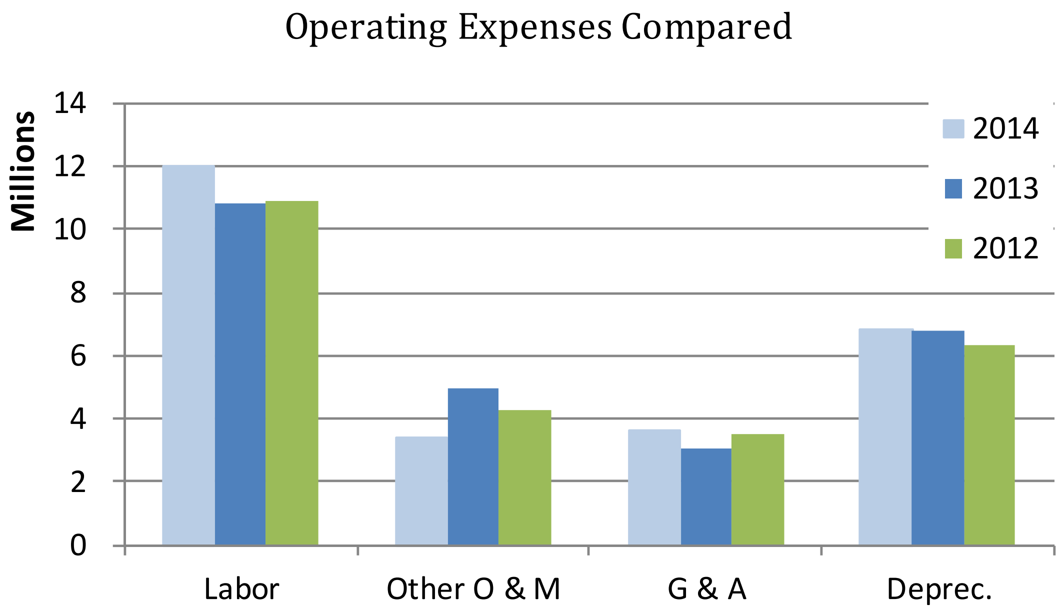
- In 2014 treated water sales to the cities of Manteca, Lathrop, and Tracy fell by $220,000 (3.3%) in response to the 4th year of drought.

- Treated water sales grew by $314,000 (5%) in 2013 mostly due to inflation in the operating costs of the water treatment plant.

- The amount of other water sales shows a drop of $3.6 million in 2014 because of a $4 million decrease in water transfers to out-of-district buyers which was partly offset by a $400,000 increase in irrigation revenues. The increase in irrigation revenues was caused by a rate increase of $3 per acre-foot that took effect in 2014.

- A $4.1 million increase in other water sales is reported for 2013 primarily because the District agreed to a one-time transfer of 40,000 acre-feet to the San Luis and Delta Mendota Water Authority and the state Department of Water Resources. There was also a small increase of $53,000 in irrigation sales due to increased use by irrigators of the Division 9 pressurized distribution system. In addition to established water charges, irrigators on this system paid an additional $30 per acre-foot for the pressurization and scheduling services.

- Other income fell by about $500,000 in 2014 and in 2013 as the California Solar Initiative expired midway through 2013. The California Solar Initiative provided annual incentive payments to the District for the first five years of production by the District's Robert O. Schulz Solar Farm.



- Labor expenses increased 10.7% in 2014 because compensated absences expense rose to a normal level after falling sharply in 2013 because of the change in the estimate for the compensated absences liability as mentioned in Note 2.

- In 2013 the typical increases to wages, benefits, and payroll taxes, were slightly more than offset by the change in the estimate for the compensated absences liability as mentioned earlier and in Note 2.

- In 2014 other operating and maintenance expense decreased $1.6 million or 32%. About half of this was due to discontinuing the on-farm water conservation program early in the year. The other significant component of the decrease is the absence of the unusual write-off that occurred in 2013 as described below.

- In 2013 other operating and maintenance expense increased $660,000 or 15%. The largest component of the 2013 increase was the transfer of costs from the capital assets account for work-in-progress to materials and supplies expense. Construction in progress was adjusted during 2013 to write off $435,000 to expense. Further details are described in Note 6 of the financial statements.

- Another component of the 2013 increase to other operating and maintenance expense was from utilities expense which grew during 2013 by $151,000 mostly for two reasons. Usage of the Division 9 pressurized system grew in 2013, and pumping costs for the water treatment plant increased at the pipeline turnouts for Tracy and Manteca. These pumping costs are recovered by charging the respective cities for direct costs of service.

- General and administrative expense increased $563,000 in 2014 and decreased $418,000 in 2013 due to fluctuations in legal and consulting costs for the District's application to the San Joaquin County Local Agency Formation Commission for permission to provide retail electric distribution services.

- In 2014 net nonoperating revenues fell by almost $2.2 million (19%) as the earnings of the Tri-Dam entities continued to decline because the continuing drought further reduced the Stanislaus River flows available for hydroelectric production. Partly offsetting the Tri-Dam decline was a $900,000 increase in other nonoperating revenues consisting mostly of irrigation entitlement fee income described in Note 13.

- In 2013, net nonoperating revenues increase $1.3 million, in part because Proposition 13 subvention (property taxes collected by San Joaquin County) increased by $700,000 in 2013 due to improving real estate markets.

- Capital contributions remained almost unchanged in 2014 but dropped about $400,000 in 2013 as replacements of District facilities by property developers declined.

- Change in net position decreased by nearly $6.7 million in 2014 and grew by $4.2 million in 2013 as a consequence of revenues and expenses.

Capital Assets and Debt Discussion

Summary of Capital Assets

For the Years Ended December 31

	2014	2013	2012
Land	$ 7,730,310	$ 7,730,310	$ 7,730,310
Construction in progress	660,822	122,483	938,878
Water treatment plant & transmission line	126,625,792	126,439,629	124,739,126
Other buildings	1,559,475	1,559,475	1,559,475
Solar generating plant	11,974,734	11,974,734	11,974,734
Irrigation system	105,714,517	105,348,804	103,477,630
Vehicles and equipment	14,293,532	14,195,596	13,847,658
Total	268,559,182	267,371,031	264,267,811
Less: accumulated depreciation	(68,585,021)	(61,892,391)	(55,256,630)
Net capital assets	$ 199,974,161	$ 205,478,640	$ 209,011,181

- Total capital assets increased $1.1 million in 2014 and $3.1 million in 2013.

- The 2014 increase was attributable to a variety of typical replacements and improvements to the irrigation distribution system and was less than usual because the District has temporarily slowed the pace of improvements and replacements while conducting a feasibility study of a possible project to pressurize more of the irrigation system. If the District embarks on this pressurization project it would render unnecessary many scheduled improvement and replacement projects.

- The 2013 increase in capital assets comprised $1.7 million spent on the water treatment plant, mostly to replace water filters; $1.9 million on various irrigation distribution system improvements; and $348,000 for vehicles and equipment replacements.

- See Note 6 for additional information about capital assets.

Summary of Long Term Debt
For the Years Ended December 31

	2014	2013	2012
2012A bonds incl. original issue premium	$ 10,423,486	$ 15,032,095	$ 17,438,745

- During 2014 long-term debt decreased $4.6 million as the District defeased the $2,180,000 amount of 2015 maturities of the 2012A Bonds. In addition, the $2,110,000 amount of 2014 maturities was redeemed and $320,000 of original issue premium was amortized.

- During 2013 total long-term debt decreased $2.4 million due to principal payments made.

- Debt service coverage ratios were 176% for 2014 and 245% for 2013. The decline in 2014 is a result of the drought's impact on hydroelectric generation at the Tri-Dam Project and the Tri-Dam Authority.

- See Note 8 for additional information about long-term debt.

Expectations for 2015

As of the date of this report, distributions to SSJID from the Tri-Dam organizations are not expected to be less than the $4.7 million received in 2014, but substantially less than the $7.3 million the District received in 2013. The decline is due to drought conditions in the Stanislaus River.

In response to the continuing drought, the District has limited irrigation water deliveries to 36 inches for 2015. Because the 2014 average was 42 inches, we expect some decline in irrigation revenues. Allotment transfers among fields are allowed and this will blunt the decrease in revenues to an unknown extent.

In 2009 the District filed an application with the San Joaquin County Local Agency Formation Commission ("LAFCo") for permission to provide retail electric distribution service within the District. LAFCo approved the application in December, 2014. PG&E has filed a lawsuit to modify or overturn the LAFCo decision. The District intends to participate in the defense of the LAFCo decision and to pursue a purchase of the PG&E utility assets within the District. The length and ultimate cost of these processes are not known.

On April 13, 2015, General Manager Jeff Shields announced his retirement. He said he is willing to continue as General Manager to help with a transition, until December 31, 2015 at the latest.

Requests for Information

This discussion is intended to provide management's perspective on the District's financial position and results of operations. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Manager of Finance and Administration, PO Box 747, Ripon, CA 95366.

Basic Financial Statements

South San Joaquin Irrigation District
Balance Sheets
December 31, 2014 and 2013

	2014	2013
ASSETS AND DEFERRED OUTFLOWS		
ASSETS		
Current Assets		
Cash & cash equivalents - unrestricted	$ 8,608,929	$ 4,554,540
Investments in marketable securities	26,673,056	26,513,746
Accounts receivable	3,261,900	3,403,628
Accrued interest receivable - unrestricted	233,931	378,148
Prepaid expenses	383,053	669,870
Inventories	150,579	155,580
Total Current Assets	39,311,448	35,675,512
Other Assets and Investments		
Cash & cash equivalents - restricted	5,318,508	1,867,293
Accrued interest receivable - restricted	7,304	16,828
Investments in securities - unrestricted (net of current amounts)	8,300,024	18,424,506
Investments in securities - restricted (reserves for debt service, construction, water treatment plant)	1,297,921	3,757,869
Notes and loans receivable (including accrued interest)	518,352	551,779
Investment in Tri-Dam Project	41,968,764	42,443,411
Total Other Assets and Investments	57,410,873	67,061,686
Capital Assets		
Non-depreciable	8,391,132	7,852,793
Depreciable	260,168,050	259,518,238
Less accumulated depreciation	(68,585,021)	(61,892,391)
Total Capital Assets	199,974,161	205,478,640
TOTAL ASSETS	296,696,482	308,215,838
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on refunding of long term debt	365,100	512,864
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 297,061,582	$ 308,728,702

The accompanying notes to the financial statements are an integral part of this statement.

South San Joaquin Irrigation District
Balance Sheets
December 31, 2014 and 2013

	2014	2013
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts payable	$ 622,428	$ 267,227
Construction contract retentions payable	5,100	
Conservation program liability	218,076	832,548
Accrued expenses	360,321	356,706
Unearned revenue	1,312,679	1,318,931
Current portion of long-term debt	276,073	2,428,610
Compensated absences	859,460	659,993
Total Current Liabilities	3,654,137	5,864,015
Long-Term Liabilities		
Long-term debt	10,147,413	12,603,485
Net obligation for other post-employment benefits	68,401	99,475
Compensated absences	400,103	548,401
Total Long-Term Liabilities	10,615,917	13,251,361
TOTAL LIABILIITES	14,270,054	19,115,376
NET POSITION		
Net investment in capital assets	191,716,800	192,762,414
Restricted	6,623,733	5,641,990
Unrestricted	84,450,995	91,208,922
TOTAL NET POSITION	282,791,528	289,613,326
TOTAL LIABILITIES AND NET POSITION	$ 297,061,582	$ 308,728,702

The accompanying notes to the financial statements are an integral part of this statement.

South San Joaquin Irrigation District
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended December 31, 2014 and 2013

	2014	2013
OPERATING REVENUES		
Irrigation sales	$ 1,923,377	$ 1,519,118
Treated water sales	6,352,507	6,572,247
Other water sales	36,664	4,046,973
Electric sales	239,318	840,994
Other	239,307	175,166
Total Operating Revenues	8,791,173	13,154,498
OPERATING EXPENSES		
Wages	6,633,103	6,801,726
Payroll taxes and benefits	5,332,836	4,004,736
Materials and supplies	1,529,729	2,225,012
Maintenance, repairs, and improvements	695,280	775,949
Utilities	1,090,150	1,171,292
Conservation	56,365	801,902
General and administrative	3,645,789	3,083,231
Depreciation	6,813,750	6,786,478
Total Operating Expenses	25,797,002	25,650,326
Net Loss From Operations	(17,005,829)	(12,495,828)
NONOPERATING REVENUES (EXPENSES)		
Proposition 13 subvention property taxes	4,116,678	3,990,902
Interest income	1,335,145	1,879,495
Changes in market value of investments	(930,970)	(1,524,286)
Interest expense	(348,029)	(389,581)
Gain (loss) on property and equipment	32,186	92,082
Tri-Dam Power Authority distributions		750,000
Tri-Dam Project distributions	4,662,000	6,582,000
Undistributed earnings of Tri-Dam Project	(776,126)	(276,687)
Other nonoperating revenues	856,099	
Total Nonoperating Revenues (Expenses)	8,946,983	11,103,925
Net (Loss) before Contributions	(8,058,846)	(1,391,903)
Capital contributions	1,237,048	1,258,404
Change in Net Position	(6,821,798)	(133,499)
Net Position, Beginning of Year	289,613,326	289,746,825
NET POSITION, END OF YEAR	$ 282,791,528	$ 289,613,326

The accompanying notes to the financial statements are an integral part of this statement.

South San Joaquin Irrigation District
Statements of Cash Flows
For the Years Ended December 31, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 9,134,993	$ 13,247,866
Other receipts	4,227	
Payments for goods and services	(11,439,843)	(12,888,412)
Payments to employees for services	(7,413,881)	(7,400,433)
Cash Used by Operating Activities	(9,714,504)	(7,040,979)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property tax receipts	3,898,814	3,854,691
Tri Dam Power Authority cash distributions		750,000
Other nonoperating revenue	856,099	
Cash Provided by Noncapital Financing Activities	4,754,913	4,604,691
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions	1,237,048	1,258,404
Proceeds from the sale of capital assets	32,186	95,120
Purchase of capital assets	(1,269,126)	(3,927,879)
Principal payments on long-term debt	(4,290,000)	(2,050,000)
Interest payments on long-term debt	(621,900)	(596,200)
Cash Used by Capital and Related Financing Activities	(4,911,792)	(5,220,555)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	1,488,889	1,824,605
Purchases of investment securities	(23,118,439)	(52,693,345)
Proceeds from sales and maturities of investment securities	34,612,589	46,117,568
Decrease (Increase) in notes and loans receivable	33,427	315,175
Capital contribution to Tri-Dam Project	(301,479)	
Tri Dam Project cash distributions	4,662,000	6,582,000
Cash Provided by Investing Activities	17,376,987	2,146,003
Net Increase (Decrease) in Cash and Cash Equivalents	7,505,604	(5,510,840)
Cash and Cash Equivalents at Beginning of Year	6,421,833	11,932,673
Cash and Cash Equivalents at End of Year	$ 13,927,437	$ 6,421,833

	2014	2013
RECONCILIATION OF CASH TO BALANCE SHEET		
Cash & cash equivalents - unrestricted	$ 8,608,929	$ 4,554,540
Cash & cash equivalents - restricted	5,318,508	1,867,293
Cash & cash equivalents - total	$ 13,927,437	$ 6,421,833

The accompanying notes to the financial statements are an integral part of this statement.

South San Joaquin Irrigation District
Statements of Cash Flows
For the Years Ended December 31, 2014 and 2013

	2014	2013
RECONCILIATION OF NET LOSS FROM OPERATIONS TO CASH USED FOR OPERATING ACTIVITIES		
Net Loss From Operations	$ (17,005,829)	$ (12,495,828)
Depreciation	6,813,750	6,786,478
(Increase) Decrease in operating assets		
Accounts receivable	359,592	94,032
Prepaid expenses	352,214	(524,108)
Inventories	5,001	(3,879)
Construction in process expensed		434,814
Increase (Decrease) in operating liabilities		
Accounts payable	320,156	(427,289)
Conservation program liability	(614,472)	34,534
Accrued expenses	41,509	41,031
Unearned revenue	(6,252)	(664)
Net obligation for other post-employment benefits	(31,343)	7,277
Compensated absences	51,170	(987,377)
Cash Used by Operating Activities	$ (9,714,504)	$ (7,040,979)
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
Decrease in fair value of investments in marketable securities	$ (930,970)	$ (1,524,286)
Decrease in investment in Tri Dam Project, net of cash received	(776,126)	(276,687)
2012 construction in process below capitalization threshold, expensed in 2013 as operating expense		434,814

The accompanying notes to the financial statements are an integral part of this statement.

Notes to the Basic Financial Statements

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Notes to the Basic Financial Statements

NOTE 1 – Organization and Description of Business

The South San Joaquin Irrigation District (District) was formed in 1909 and operates as a nonregulated special District of the State of California under the California Water Code, which authorizes the District to provide water, electricity, and related recreational facilities. The District provides and distributes irrigation water from the Stanislaus River to a region surrounding the cities of Manteca, Escalon and Ripon. The boundaries encompass about 72,200 acres. The District also owns and operates the Nick C. DeGroot Water Treatment Plant which processes potable water for the cities of Manteca, Escalon, Tracy, and Lathrop. The District is governed by an elected five member Board of Directors. The Board of Directors has the authority to fix rates and charges for the District's commodities and services. The District may also incur indebtedness, including issuing bonds, and is exempt from federal and state income taxes.

NOTE 2 – Summary of Significant Accounting Policies

Significant accounting policies are those where Generally Accepted Accounting Principles require the District to choose from allowable alternative methods.

A. Reporting Entity

Tri-Dam Project is a joint venture formed in 1948 under a joint cooperation agreement between the District and Oakdale Irrigation District for the purpose of operating the dams, reservoirs, canals, and hydroelectric generating plants jointly and equally owned by the District and the Oakdale Irrigation District. As required by Governmental Accounting Standards Board Statement numbers 14 and 61, these financial statements present the District as well as the District's one half share of the Tri-Dam Project because the District has an equity interest in Tri-Dam Project. Tri-Dam Project also issues separate financial statements which may be obtained by writing to PO Box 1158, Pinecrest, CA 95364-0158 or by sending an email message to clerk@tridamproject.com or on the web at http://www.tridamproject.com/reports.aspx.

The District is a member, with the Oakdale Irrigation District, in the Tri-Dam Power Authority which owns and operates a dam, reservoir, and hydroelectric generating plant at Sandbar. The Tri-Dam Power Authority issues its own audited financial statements which may be obtained by writing to to PO Box 1158, Pinecrest, CA 95364-0158 or by sending an email message to clerk@tridamproject.com or on the web at http://www.tridamproject.com/reports.aspx. These financial statements do not include the Tri-Dam Power Authority because the District has only a residual interest, not an equity interest, in the assets of Tri-Dam Power Authority.

The District is a member of the San Joaquin River Group Authority (SJRGA), and also of the San Joaquin Tributaries Authority (SJTA). The SJRGA was created in 1996 as a joint powers authority consisting of the District, Modesto Irrigation District, Oakdale Irrigation District, Turlock Irrigation District, Friant Water Users Authority, and San Joaquin River Exchange Contractors Water Authority in order to represent these organizations in the investigation, monitoring, planning, control, mitigation of water issues, and enhancement of the environmental conditions in the Delta which impact the members. The agreement terminates in December 2036, unless extended by the participants. The SJTA was formed in 2012 for similar purposes with the District, Modesto Irrigation District, Oakdale Irrigation District, Turlock Irrigation District, and the City and County of San Francisco as members. These financial statements do not include the SJRGA or the SJTA because the District has only a residual interest, not an equity interest, in the assets of these entities. Both the SJRGA and the SJTA issue financial statements which can be obtained by contacting the executive director of the SJTA at http://calsmartwater.org/contact/.

B. Basis of Accounting

These financial statements are prepared in conformity with generally accepted accounting principles ("GAAP") in the United States of America. The Governmental Accounting Standards Board ("GASB") is the acknowledged standard setting body for accounting and financial reporting standards followed by government entities in the United States. The District is presented as a single enterprise fund. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business where activities are financed in whole or in substantial part by fees charged in exchange for goods and service provided by the District. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place, so revenues are recognized when earned rather than when received, and expenses are recorded when incurred rather than when paid.

Private-sector standards of accounting and financial reporting issued by the Financial Accounting Standard Board ("FASB") prior to December 1, 1989, are followed in the District's financial statements to the extent that those standards do not conflict with or contradict GASB statements.

Internal transactions between operating divisions of the District have been recorded for management purposes. These internal transactions have been eliminated to avoid double counting of revenues and expenses in the consolidated financial statements.

GASB requires a distinction in the financial statements between operating and nonoperating revenues and expenses, but GASB has not established a standard for the distinction. The District classifies as operating revenues those charges for goods and services which constitute the primary business activities of the District. Operating expenses are those required to provide the primary goods and services of the District and to earn the operating revenues. Nonoperating revenues generally result from nonexchange transactions, financing transactions, or ancillary activities.

C. Cash and Cash Equivalents

GAAP allows a financial statement issuer to choose the focus of the statement of cash flows as either cash or "cash and cash equivalents". The District reports restricted and unrestricted cash, including bank deposits and the District's investment in the State of California Local Agency Investment Fund (LAIF), as well as cash equivalents in the statement of cash flows. The District defines cash equivalents as certain highly liquid investments with an original maturity of three months or less, including only money market mutual funds. Other securities with an original maturity of three months or less not meeting this definition are not reported as cash equivalents.

D. Investment Basis

All investments are carried at their fair market value. Market values may have changed significantly after year-end.

E. Restricted Assets

The use of some assets can be restricted to certain purposes by law, by grantors of the assets, by enforceable legislative acts of the District's board of directors, or by contracts to which the District is a party. When the District has a choice to use either restricted or unrestricted funds the District's policy is normally to use restricted funds first. The debt service reserve is established under the terms of the 2012A Revenue Refunding Bonds to be used in the event of inadequate funds to pay debt service. The capital replacement reserve of the water treatment plant is funded by the municipal wholesale customers under an agreement that limits the use of those funds to the cost of capital assets of the water treatment plant.

F. Accounts Receivable

Trade and property tax receivables are not shown net of an allowance for uncollectible amounts because the amounts estimated by management to be uncollectible are deemed immaterial. Property taxes are levied as of March 1 on property values assessed as of the same date. State statutes provide that the property tax rate is limited generally to one percent of assessed value, and can be levied by only the county, and shared by applicable jurisdictions within the county. The County of San Joaquin collects the taxes and distributes them to taxing jurisdictions on the basis of assessed valuations subject to voter-approved debt. Property taxes are due to the county on November 1 and March 1, and become delinquent on December 10 and April 10. The District receives property taxes pursuant to an arrangement with the County known as the "Teeter Plan". Under the plan, the County assumes responsibility for the collection of delinquent taxes and pays the full allocation to the District. The District recognizes property tax revenues in the year for which they are levied.

G. Inventory

Inventories are valued at cost based upon physical determinations made at the end of each year. Inventories are assumed to be consumed on the "last in, first out" basis.

H. Prepaid expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in the financial statements.

I. Capital Assets

Property, plant, equipment and infrastructure are reported at historical cost. Items costing at least $10,000 with an estimated useful life of more than one year are capitalized. The District capitalizes as part of the asset cost, any significant interest incurred during the construction phase of the asset. Donated property and assets constructed by developers are recorded at estimated fair market value at the date of donation. Depreciation is provided using the straight-line method for assets other than land. Estimated useful lives as are follows:

Assets	Years
Dams, canals and distributor laterals	25-100
Pumping equipment and turbines	10-50
Drainage laterals	40-100
Buildings	19-40
Machinery and equipment	5-20
Office equipment	3-15
Vehicles and trucks	4-10

J. Conservation Liability

The District offered an on-farm conservation program until early 2014, where the District reimburses irrigators for part of the cost of installing qualifying conservation measures in order to improve efficiency of use of the District's water resource. Under the on-farm program, an irrigator proposes new water conservation measures for their farm under guidelines issued by the District. The District determines whether the proposal qualifies, and if it does, then the District commits to reimburse the farmer for a portion of the cost of the approved measures subject to installation by the farmer and inspection by the District. When the District initially approves an irrigator's conservation proposal, it records a liability for the expected reimbursement amount. Once the conservation measures are installed and satisfactorily inspected, the District pays the cost-share reimbursement to the farmer and relieves the liability for that project. Proposals have not been accepted since early 2014, and cost-share reimbursements will continue until the conservation liability is fully satisfied.

K. Compensated Absences

The total amount of liability for compensated absences is reflected in the basic financial statements. It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is liability for all unpaid vacation time and for varying portions of unpaid accumulated sick leave. According to the District's collective bargaining agreements with its employees, upon retirement or other termination of employment, the value of an employee's unused vacation time, and a varying portion of unused sick leave, will be paid to the employee. Instead of receiving cash for unused sick leave upon retirement, qualified employees may elect to exchange some or all of their unused sick leave for post-employment healthcare benefits ("OPEB"). The financial statements report the amount of the liability for OPEB estimated by a professional actuary as explained in note 12. The amount of the OPEB liability depends on an actuarial estimate of how many sick leave hours, attributable to past service as of the balance sheet date, will eventually be exchanged for OPEB. Beginning with 2013 this quantity of sick leave hours is excluded from the estimation of the compensated absences liability.

L. Long-Term Debt

Bond premiums and deferred amounts on refunding are deferred and amortized over the life of the related debt. Bonds payable are reported net of the applicable bond premium. Deferred amounts on refunding are reported as deferred inflows or outflows of resources on the balance sheet. Debt issuance costs are expensed as incurred.

M. Use of Estimates

The preparation of financial statements in conformity with the accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Notes to the Basic Financial Statements

NOTE 3 – Cash and Investments

A. Classification

Cash and investments are classified in the financial statements as shown below at December 31, 2014 and 2013:

	2014	2013
Cash and cash equivalents - unrestricted	$ 8,608,929	$ 4,554,540
Cash and cash equivalents - restricted	5,318,508	1,867,293
Total cash and cash equivalents	13,927,437	6,421,833
Investments in marketable securities - current portion, unrestricted	26,673,056	26,513,746
Investments in marketable securities - noncurrent portion, unrestricted	8,300,024	18,424,506
Investments in securities - restricted (reserves for debt service, water treatment plant)	1,297,921	3,757,869
Total investments in marketable securities	36,271,001	48,696,121
Total cash and investments	$ 50,198,438	$ 55,117,954

B. Investment Policy

Under the provisions of the District's investment policy, and in accordance with California Government code, the following investments are authorized:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment in One issuer
Bonds issued by the District	5 years	N/A	None	N/A
Obligations issued by United States government or its agencies	5 years	N/A	None	None
Obligations of any state or any local agency within any state in the United States	5 years	N/A	None	None
Bankers acceptances	180 days	N/A	40%	30%
Commercial paper	270 days	AAA/Aaa	25%	10%
Negotiable certificates of deposits	5 years	N/A	30%	None
Medium term corporate notes	5 years	A	30%	None
California Local Agency Investment Fund	N/A	N/A	None	None
Collateralized obligations and mortgage backed bonds	5 years	A	20%	None
Repurchase agreements	1 year	N/A	None	None
Money market funds	N/A	AAA/Aaa*	20%	10%
Obligations of International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank	5 years	AA	30%	None

*Must have highest rating from two nationally recognized statistical organizations.

The following table summarizes investments that are authorized by the District's long-term debt agreement, which are not subject to the limitations of the California Government Code:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment in One issuer
Cash	N/A	FDIC insured or collateralized	N/A	N/A
US Treasury obligations	N/A	N/A	N/A	N/A
US agency obligations representing full faith and credit of United States	N/A	N/A	N/A	N/A
Federal National Mortgage Association	N/A	N/A	N/A	N/A
Federal Home Loan Mortgage Corporation	3 years	AAA/Aaa	N/A	N/A
Deposit accounts, CDs, federal funds and banker's acceptances with domestic banks	360 days	FDIC insured or: A-1, A-1+, or P-1	N/A	N/A
Commercial paper	270 days	A-1+/P-1	N/A	N/A
Money market fund	N/A	AAAm/AAArn-G	N/A	N/A
Pre-refunded municipal obligations from any US state	N/A	Highest of Moody's or S & P	N/A	N/A
Investment Agreements supported by opinions of counsel	N/A	AA by S&P	N/A	N/A
Local Agency Investment Fund	N/A	N/A	N/A	N/A

C. Interest Rate Risk and Credit Risk

Interest rate risk is the risk that increases in market interest rates will decrease the market value of an investment. Normally, the longer the remaining maturity of an investment, the greater is the sensitivity of its market value to changes in the market interest rates. The District's investment policy limits exposure to interest rate risk by requiring that maturities be planned to accommodate the District's operating cash flow forecast so that securities can be held to maturity to avoid realizing losses on premature sales. Credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligations.

Notes to the Basic Financial Statements

Information about the interest rate risk and the credit risk of the District's investments is provided by the following table that shows the District's investments by maturity as of December 31, 2014 and the credit ratings assigned.

2014 INVESTMENTS BY MATURITY AND RATINGS

Category	Moody's or S&P Rating	Year of Maturity 2015	2016	2017	Total
US Agencies					
	AA+	$ -	$ -	$ 2,990,640	$ 2,990,640
State and municipal debt					
	No Rating	358,775			358,775
	A	333,053			333,053
	A-	302,283			302,283
	A Insured	252,658	245,088		497,746
	A1 Insured	753,248	801,796		1,555,044
	A2	973,622			973,622
	A2 Insured	2,582,750	605,028		3,187,778
	A3 Insured	2,994,368			2,994,368
	AA	1,283,516	850,995		2,134,511
	AA-	768,625	206,900		975,525
	AA- Insured	824,665	105,463		930,128
	AA+	1,300,147	204,582		1,504,729
	Aa1	1,502,070			1,502,070
	AA+ Insured	117,604			117,604
	Aa1	456,098	2,000,540		2,456,638
	Aa2	458,777	517,265		976,042
	Aa3	568,851			568,851
	Aa3 Insured	628,721	114,275		742,996
	AAA	1,747,544	652,699		2,400,243
	M1G1	231,214			231,214
	SP-1	510,323			510,323
	AA Insured	294,968	340,357		635,325
	BBB	527,945			527,945
Total state and municipal debt		19,771,825	6,644,988		26,416,813
Negotiable certificates of deposit					
	FDIC Insured	6,129,912	733,636		6,863,548
Total		$ 25,901,737	$ 7,378,624	$ 2,990,640	$ 36,271,001

Information about the interest rate risk and the credit risk of the District's investments is provided by the following table that shows the District's investments by maturity as of December 31, 2013 and the credit ratings assigned.

2013 INVESTMENTS BY MATURITY AND RATINGS

			Year of Maturity			
Category	**Moody's or S&P Rating**	**2014**	**2015**	**2016**	**2017**	**Total**
US agencies						
	AA+	$ -	$ -	$ -	$ 2,956,740	$ 2,956,740
State and municipal debt						
	A	3,133,285	339,899			3,473,184
	A-	661,740				661,740
	A Insured	966,323	750,609			1,716,932
	A- Insured		100,305			100,305
	A+	142,823	316,896			459,719
	A+ Insured	99,729				99,729
	A1 Insured	782,966	215,111			998,077
	A2	959,554				959,554
	A2 Insured	2,858,724	1,949,857	380,654		5,189,235
	A3 Insured	101,577				101,577
	AA	1,112,266	778,235	846,668		2,737,169
	AA-	810,538	422,527			1,233,065
	AA- Insured	2,502,860	100,279			2,603,139
	AA+	1,281,610	608,784			1,890,394
	AA+ Insured	204,941				204,941
	Aa1	284,562	205,668			490,230
	Aa1 Insured	256,265				256,265
	Aa2	759,935	159,293			919,228
	Aa2 Insured	358,937				358,937
	Aa3	2,531,436				2,531,436
	Aa3 Insured	149,594	523,164			672,758
	AAA	2,041,312	3,006,105			5,047,417
	Baa1 Insured	2,612,718	2,582,454			5,195,172
	M1G1		236,001			236,001
	SP-1		199,116			199,116
Total state and municipal debt		24,613,695	12,494,303	1,227,322		38,335,320
Negotiable certificates of deposit						
	FDIC Insured	2,698,726	2,691,655			5,390,381
Corporate notes						
	Baa2	2,013,680				2,013,680
Total		$ 29,326,101	$ 15,185,958	$ 1,227,322	$ 2,956,740	$ 48,696,121

The District is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429.1 under the oversight of the Treasurer of the State of California. The District reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury notes and bills, and corporations.

D. Concentration of Credit Risk

Investments in the securities of any individual issuer, other than U.S. Treasury securities, mutual funds, and external investment funds, which represent 5% or more of total District-wide investments were as follows at December 31, 2014.

Issuer	Investment Type	Amount
Federal National Mortgage Association	U. S. Agencies	$ 2,990,640
Sonoma County, California	Municipal Bonds	2,312,303

Investments in the securities of any individual issuer, other than U.S. Treasury securities, mutual funds, and external investment funds that represent 5% or more of total District-wide investments were as follows at December 31, 2013.

Issuer	Investment Type	Amount
State of California	Municipal Bonds	$ 3,285,847
Federal National Mortgage Association	U. S. Agencies	2,956,740

At December 31, 2014, cash included $837,938 held in commercial banks, and at December 31, 2013, cash included $3,040,648, all of which was either insured by the Federal Deposit Insurance Corporation or collateralized as required by State Law (Government Code Section 53630).

NOTE 4 – Accounts and Notes Receivable

Accounts receivable are composed of the following elements:

	2014	2013
Proposition 13 subvention property taxes	$ 2,177,478	$ 1,959,614
Water treatment plant sales to cities	677,161	1,077,537
Irrigation charges	392,954	354,342
Miscellaneous	14,307	12,135
Total	$ 3,261,900	$ 3,403,628

Notes and loans receivable consist of one significant amount at December 31, 2014 and December 31, 2013. This amount is a note receivable from a real estate development firm in the principal amount of $503,647 and accrued interest of $14,705 at December

31, 2014, and accrued interest of $48,132 at December 31, 2013. This note is for reimbursement to the District for costs to build irrigation facilities which the developer was responsible to provide to the District under the terms of a developers agreement. The interest rate is variable with a minimum annual rate of 2%. The minimum rate of 2% has been in effect since June 1, 2012 through the date of this report. The developer is dividing property in order to sell building lots. Upon the sale of each lot, $1,500 is due the District for payment of interest and principal until all interest and principal is paid. During 2014, the developer made a number of payments to the District, which were all applied to reduce the accrued interest. Any principal and interest remaining unpaid on June 1, 2017 is due on that date.

NOTE 5 – Investment in the Tri-Dam Project

The District has a fifty percent investment in the Tri-Dam Project. The Tri-Dam Project's condensed audited financial data is presented below.

Condensed Balance Sheets
December 31, 2014 and 2013

	2014	2013
Current assets	$ 19,297,623	$ 19,749,272
Capital assets	58,370,251	59,230,494
Deferred outflows	7,239,490	7,193,773
Total assets and deferred outflows	$ 84,907,364	$ 86,173,539
Current liabilities	$ 698,669	$ 1,046,439
Noncurrent liabilities	271,168	240,278
Total liabilities	969,837	1,286,717
Net investment in capital assets	58,370,251	59,230,494
Unrestricted net position	25,567,276	25,656,328
Total net position	83,937,527	84,886,822
Total liabilities and net position	$ 84,907,364	$ 86,173,539

Condensed Statements of Revenues, Expenses, & Changes in Net Assets
For the Years Ended December 31, 2014 and 2013

	2014	2013
Operating revenues	$ 15,460,554	$ 22,500,866
Operating expenses	7,132,238	10,364,681
Net Income from Operations	8,328,316	12,136,185
Nonoperating Revenues (Expenses)		
Beardsley boat launch grant revenue		1,472,435
Reimbursements	184,330	171,560
Water sales	107,041	128,226
Rental of equipment and facilities	134,407	64,797
Investment earnings	46,699	43,659
Other nonoperating revenue	275,197	16,502
River habitat studies	(907,193)	(1,080,849)
Goodwin Dam expenses	(302,551)	(269,778)
(Loss) gain on disposal of capital assets	(94,504)	(72,110)
Total Nonoperating Revenues (Expenses)	(556,574)	474,442
Change in Net Position	7,771,742	12,610,627
Net position, beginning of year	84,886,822	85,440,195
Add: contribution of land by member districts	602,963	
Less: distributions to member districts	(9,324,000)	(13,164,000)
Net Position, End of Year	$ 83,937,527	$ 84,886,822

Notes to the Basic Financial Statements

NOTE 6 – Capital Assets

Changes in capital assets accounts for the year ended December 31, 2014 are summarized below:

	December 31, 2013	Additions	Disposals	Transfers and Adjustments	December 31, 2014
Capital assets not being depreciated:					
Land	$ 1,382,984	$ -	$ -	$ -	$ 1,382,984
Water treatment plant land	5,834,926				5,834,926
Solar Land	512,400				512,400
Construction in progress - Irrigation	122,483	895,952		(365,713)	652,722
Construction in progress - WTP		8,100			8,100
Total	7,852,793	904,052		(365,713)	8,391,132
Capital assets being depreciated:					
Improvements	480,176				480,176
Dams, canals, and laterals	104,868,628			365,713	105,234,341
Buildings	1,559,475				1,559,475
Vehicle and excavators	3,896,369	160,214	(110,263)		3,946,320
Machinerey and equipment	9,833,486	58,842			9,892,328
Water treatment plant ("WTP") vehicles	465,741		(10,857)		454,884
WTP improvements	630,135	81,094			711,229
WTP building and equipment	49,981,311	92,195			50,073,506
WTP original construction	66,095,744				66,095,744
WTP pump stations - original construction	9,732,439	12,874			9,745,313
Solar plant	11,974,734				11,974,734
Total	259,518,238	405,219	(121,120)	365,713	260,168,050
Less accumulated depreciation:					
Improvements	(199,347)	(32,090)			(231,437)
Dams, canals, and laterals	(31,340,251)	(2,228,493)			(33,568,744)
Buildings	(568,696)	(33,040)			(601,736)
Vehicle and excavators	(2,481,550)	(336,245)	110,263		(2,707,532)
Machinerey and equipment	(1,870,765)	(289,408)			(2,160,173)
Water treatment plant ("WTP") vehicles	(297,472)	(36,621)	10,857		(323,236)
WTP improvements	(142,416)	(48,076)			(190,492)
WTP building and equipment	(8,792,893)	(1,297,126)			(10,090,019)
WTP original construction	(11,101,822)	(1,685,472)			(12,787,294)
WTP pump stations - original construction	(2,270,905)	(324,692)			(2,595,597)
Solar plant	(2,826,274)	(502,487)			(3,328,761)
Total	(61,892,391)	(6,813,750)	121,120		(68,585,021)
Net Depreciable Capital Assets	197,625,847	(6,408,531)		365,713	191,583,029
Net Capital Assets	$ 205,478,640	$ (5,504,479)	$ -	$ -	$ 199,974,161

Changes in capital assets accounts for the year ended December 31, 2013 are summarized below:

	December 31, 2012	Additions	Disposals	Transfers and Adjustments	December 31, 2013
Capital assets not being depreciated:					
Land	$ 1,382,984	$ -	$ -	$ -	$ 1,382,984
Water treatment plant land	5,834,926				5,834,926
Solar Land	512,400				512,400
Construction in progress - Irrigation	833,143	1,672,355		(2,383,015)	122,483
Construction in progress - WTP	105,735	62,647		(168,382)	
Total	8,669,188	1,735,002		(2,551,397)	7,852,793
Capital assets being depreciated:					
Improvements	413,967	9,980		56,229	480,176
Dams, canals, and laterals	103,063,663			1,804,965	104,868,628
Buildings	1,559,475				1,559,475
Vehicle and excavators	3,717,079	333,047	(153,757)		3,896,369
Machinerey and equipment	9,719,246	27,232		87,008	9,833,486
Water treatment plant ("WTP") vehicles	411,333	54,408			465,741
WTP improvements	629,600			535	630,135
WTP building and equipment	49,773,575	162,759		44,977	49,981,311
WTP original construction	64,603,512	1,369,362		122,870	66,095,744
WTP pump stations - original construction	9,732,439				9,732,439
Solar plant	11,974,734				11,974,734
Total	255,598,623	1,956,788	(153,757)	2,116,584	259,518,238
Less accumulated depreciation:					
Improvements	(173,789)	(25,558)			(199,347)
Dams, canals, and laterals	(29,131,358)	(2,208,893)			(31,340,251)
Buildings	(535,656)	(33,040)			(568,696)
Vehicle and excavators	(2,298,983)	(335,060)	152,493		(2,481,550)
Machinerey and equipment	(1,542,828)	(327,937)			(1,870,765)
Water treatment plant ("WTP") vehicles	(263,128)	(34,344)			(297,472)
WTP improvements	(93,605)	(48,811)			(142,416)
WTP building and equipment	(7,509,443)	(1,283,450)			(8,792,893)
WTP original construction	(9,437,500)	(1,664,322)			(11,101,822)
WTP pump stations - original construction	(1,946,489)	(324,416)			(2,270,905)
Solar plant	(2,323,851)	(502,423)			(2,826,274)
Total	(55,256,630)	(6,788,254)	152,493		(61,892,391)
Net Depreciable Capital Assets	200,341,993	(4,831,466)	(1,264)	2,116,584	197,625,847
Net Capital Assets	$ 209,011,181	$ (3,096,464)	$ (1,264)	$ (434,813)	$ 205,478,640

Construction in progress was adjusted during 2013 to write off $434,813 to expense. Of this amount, $423,559 was the cost of a project to acquire and install flow meters throughout the irrigation distribution system. When the project was started the cost of the individual meters together with labor required to place each meter in service was expected to exceed the minimum required to capitalize the individual assets. When it was discovered that the costs did not reach the capitalization cost threshold they were reclassified from construction work in progress to expense.

NOTE 7 – Operating Leases

The District utilizes various pieces of equipment that are leased under a number of non-cancelable operating leases. These leases contain renewal options for additional future periods. Minimum rental payments due under the leases for future calendar years are as follows:

2015	$ 35,312
2016	14,909
Total	$ 50,221

NOTE 8 – Long-term Liabilities

A. Description of individual long-term debt issues outstanding

Long-term debt at December 31, 2014 and 2013 consists of Refunding Revenue Bonds Series 2012A issued on May 3, 2012 in an advance refunding of all the outstanding Revenue Certificates of Participation Series 2008A. The Series 2008A Revenue Certificates of Participation were issued on July 1, 2008 in the original amount of $25,000,000 and the proceeds were for construction of a solar power generating plant and capital improvements to the District's irrigation transmission and distribution system. Series 2012A was issued in the original amount of $17,975,000 plus an original issue premium of $1,751,145. The Bonds are secured by a lien on the net water system revenues. The terms of the Bonds require the District to annually collect net revenues of at least 125% of annual debt service, after subtracting operating and maintenance expenses. Future debt service requires principal payments, ranging from $2,260,000 to $2,545,000 due on October 1 annually through 2019, and semi-annual interest payments, ranging from $50,900 to $235,700, due on April 1 and October 1 through 2019. Coupon rates are 4.0% per annum.

B. Required disclosure of long-term debt activity

Activity during the years ending December 31, 2014 and 2013, in the long-term debt accounts, was as shown in the following tables:

	December 31, 2013	Additions	Reductions	December 31, 2014	Due Within One Year
Long-Term Liabilities					
2012A Refunding Bonds	$ 13,895,000	$ -	$ (4,290,000)	$ 9,605,000	$ -
Original issue premium on 2012A Refunding Bonds	1,137,095		(318,609)	818,486	276,073
Subtotal long term debt	15,032,095		(4,608,609)	10,423,486	276,073
Net obligation for other post-employment benefits	99,475	116,868	(147,942)	68,401	
Compensated absences	1,208,394	1,267,539	(1,216,370)	1,259,563	859,460
Total long term liabilities	$ 16,339,964	$ 1,384,407	$ (5,972,921)	$ 11,751,450	$ 1,135,533
Deferred Outflows					
Deferred amount on refunding of 2008A Certificates of Participation	$ (512,864)	$ -	$ 147,764	$ (365,100)	$ (128,036)

	December 31, 2012	Additions	Reductions	December 31, 2013	Due Within One Year
Long-Term Liabilities					
2012A Refunding Revenue Bonds	$ 15,945,000	$ -	$ (2,050,000)	$ 13,895,000	$ 2,110,000
Original issue premium on 2012A Refunding Bonds	1,493,745		(356,650)	1,137,095	318,610
Subtotal long term debt	17,438,745		(2,406,650)	15,032,095	2,428,610
Net obligation for other post-employment benefits	92,198	93,288	(86,011)	99,475	
Compensated absences	2,195,771	474,604	(1,461,981)	1,208,394	659,993
Total long term liabilities	$ 19,726,714	$ 567,892	$ (3,954,642)	$ 16,339,964	$ 3,088,603
Deferred Outflows					
Deferred amount on refunding of 2008A Certificates of Participation	$ (678,270)	$ -	$ 165,406	$ (512,864)	$ (147,764)

C. Debt service requirements to maturity

Debt service requirements to maturity, for years ending December 31, are as follows:

	Principal	Interest	Total
2015	$ -	$ 384,200	$ 384,200
2016	2,260,000	384,200	2,644,200
2017	2,355,000	293,800	2,648,800
2018	2,445,000	199,600	2,644,600
2019	2,545,000	101,800	2,646,800
Total	$ 9,605,000	$ 1,363,600	$ 10,968,600

D. Defeasance of Debt

On December 1, 2014 the District defeased the 2015 maturities of the 2012A Bond Series by placing $2,267,200 in an irrevocable trust to pay the $2,180,000 principal amount of bonds maturing October 1, 2015 and $87,200 of interest payable thereon April 1 and October 1, 2015. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. The defeasance reduces the balance of long-term debt by the $2,180,000 of defeased 2015 maturities, reduces the current portion of long-term debt to zero, and creates a prepaid interest balance of $65,400 at December 31, 2014. Interest on the remaining 2012A Bond maturities will continue to be payable in 2015, and subject to the 125% debt service coverage requirement. This reduces the minimum required net revenues, as defined in the 2012A bond indenture, needed to provide 125% debt service coverage, from $3,314,250 to $480,250.

E. Pledged Revenues

The District has pledged future water system revenues, net of specified operating expenses, to repay its Refunding Revenue Bonds Series 2012A, in the original amount of $17,975,000. Proceeds of the Bonds were used to refund a debt issuance as described above. The Bonds are payable solely from net water system revenues and are payable through October 2019. Annual principal and interest payments on the Bonds are expected to require approximately 20% of net revenues in 2015. Total principal and interest remaining to be paid on the Bonds were $10,968,600 and $15,880,500 at December 31, 2014 and 2013 respectively. Cash basis principal and interest paid on the Bonds in 2014 was $2,644,700 (not including $2,267,200 paid into an escrow account to defease the 2015 maturities) and $2,646,200 in 2013. Total water system net revenues calculated in accordance with the covenants were $4,647,386 and $6,490,055 at December 31, 2014 and 2013, respectively, producing debt service coverage ratios of 176% for 2014 and 245% for 2013.

F. Rate Stabilization Fund

The District's debt agreement allows the District to establish a rate stabilization fund to assist in meeting the required debt service coverage ratio. Amounts deposited in the rate stabilization fund are included as expenses for purposes of the debt service coverage ratio in the year deposited and amounts withdrawn from the rate stabilization fund are included as revenues for purposes of the debt service coverage ratio in the year withdrawn. During 2014 the District withdrew $661,175 from the rate stabilization fund.

NOTE 9 – Net Position

Net position, formerly called net assets, is the excess of all the District's assets and deferred outflows of resources over all its liabilities and deferred inflows of resources. Net position is divided into three components.

"Net investment in capital assets" describes the portion of net position which represents the net book value of the District's capital assets, less the outstanding balance of any debt issued to finance these assets. If a material amount of such debt remains unspent, that amount of the debt is excluded from the calculation of net investment in capital assets.

Net investment in capital assets is made up of the following components as of December 31, 2014 and 2013:

	2014	2013
Total capital assets, net of accumulated depreciation	$ 199,974,161	$ 205,478,640
Less current portion LT debt	(276,073)	(2,428,610)
Less noncurrent portion LT debt	(10,147,413)	(12,603,485)
Add deferred amount on refunding of 2012A Refunding Revenue Bonds	365,100	512,864
Add unspent proceeds of debt:		
Debt service reserve fund	1,801,025	1,803,005
Total	$ 191,716,800	$ 192,762,414

The second component of net position is restricted net position, which consists of restricted assets less related liabilities. Restricted assets are assets whose use has been restricted to certain purposes by law, by grantors of the assets, by enforceable legislative acts of the District's Board of Directors, or by contracts to which the District is a party.

The following table shows the composition of restricted net position for December 31, 2014 and 2013.

	2014	2013
Debt service reserve	$ 1,801,025	$ 1,803,005
Water treatment plant funds	4,815,404	3,822,157
Accrued interest receivable on restricted investments	7,304	16,828
Total	$ 6,623,733	$ 5,641,990

The third component of net assets is unrestricted net position, which is simply the amount of net position that does not qualify as either restricted net position, or as net investment in capital assets. Included in the amount of unrestricted net position is the rate stabilization fund which had a balance of $1,852,957 on December 31, 2014, and $2,488,590 on December 31, 2013. The rate stabilization fund was established by the Board of Directors under the provisions of the indenture of trust for the Refunding Revenue Bonds Series 2012A and committed by the Board to supplement the debt service coverage ratio as necessary and as permitted by the bond indenture.

NOTE 10 – Capital Contributions

Capital contributions consist of cash and other property contributed to the District. Noncash contributed assets are recorded at estimated fair market value at the date of donation. The District recognized capital contributions from various sources as follows:

	2014	2013
Developers	$ 103,882	$ -
Municipal customers of water treatment plant	1,109,922	1,140,929
Irrigation customers	1,282	37,402
U. S. Natural Resources Conservation Service	21,962	80,073
	$ 1,237,048	$ 1,258,404

NOTE 11 – Retirement Plan

Plan Description

The District contributes to the Miscellaneous Plan of the South San Joaquin Irrigation District, a cost-sharing multiple-employer defined benefit pension plan administered by the California Public Employees Retirement System (CalPERS). The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statute and the District’s Board of Directors. The District employees that were members of CalPERS as of January 1, 2013 participate in the 2.5% at 55 risk pool. Employees who were not members of CalPERS as of January 1, 2013 participate in the 2% at 62 risk pool.

CalPERS issues a publicly available financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from their Executive Office, 400 P Street, Sacramento, CA 95814.

Funding Policy

Participants in the 2.5% at 55 risk pool are required to contribute 8 percent of their annual covered salary, and the District makes 50% of the contributions required of general bargaining unit employees, and all of the contribution required of management employees. Participants in the 2% at 62 risk pool are required to contribute one half of the normal cost or 6.25%, and the District contributes the remaining 6.25% of the annual required contribution. The District does not make any contributions required of the employees for the 2% at 62 risk pool. The contribution requirements of plan members and the District are established and may be amended by CalPERS. The District's employer contribution rates and amounts for recent years were as follows:

	Periods Ended June 30		
	2015	2014	2013
Employer contribution rate:			
2.5% at 55 Risk Pool	19.315%	18.324%	17.671%
2.0% at 62 Risk Pool	6.250%	6.250%	6.250%

	Years Ended December 31		
	2014	2013	2012
Employer contribution amount:			
2.5% at 55 Risk Pool	$ 1,231,502	$ 1,189,098	$ 1,061,718
2.0% at 62 Risk Pool	9,858	5,328	
Subtotal	1,241,360	1,194,426	1,061,718
Employee contribution paid by District:			
2.5% at 55 Risk Pool	320,900	341,315	328,578
Total contributions paid by District	$ 1,562,260	$ 1,535,741	$ 1,390,296

NOTE 12 – Other Post-employment Benefits

Plan Description

The District provides a defined benefit other postemployment benefits (OPEB) healthcare plan (the Plan) that provides medical benefits to retired employees and their eligible dependents. The Plan is an agent plan because plan assets are invested collectively with other agencies by CalPERS as described below. The Plan has a maximum benefit ranging up to 100% of healthcare premiums for up to 180 months. The amount of the benefit depends on the employee's number of unused sick days at the retirement date, length of employment and bargaining unit membership. Upon retirement, if qualified, the employee elects whether to participate in the Plan by exchanging sick days for months of health insurance coverage, or to take a payment of accrued sick leave as described in Note 2K. Employees that elect to take a payment for accrued sick leave do not participate in the Plan. The District's Board of Directors has the authority to establish and amend benefit provisions. The Plan does not issue separate financial statements.

Funding Policy

The contribution requirements of plan members and the District are established and may be amended by the Board of Directors. The required contribution is based on prefunding of OPEB liabilities through the irrevocable trust account with the California Employers' Retiree Benefit Trust, which is administered by CalPERS. The California Employers' Retiree Benefit Trust is a tax qualified irrevocable trust organized under Internal Revenue Code Section 115 to administer retiree healthcare benefits and collectively invest plan assets of all trust members. The California Employers' Retiree Benefit Trust issues publicly available financial statements according to GASB Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other than Pension Plans, in aggregate with other California Employers' Retiree Benefit Trust participating employers. The California Employers' Retiree Benefit Trust financial statements can be obtained from the CalPERS website at www.calpers.ca.gov. During the years ended June 30, 2014 and 2013, the District made health insurance premium payments on behalf of retirees of $147,942 and $86,011 respectively, in lieu of payments to the irrevocable trust. Plan members did not make any contributions to the Plan.

Annual OPEB Cost and Net OPEB Cost (Expense)

The District's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the years ended 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 end of year	$ 115,563	$ 88,007
Interest on net OPEB obligation	7,023	6,509
Adjustment to annual required contribution	(5,718)	(1,228)
Annual OPEB cost (expense)	116,868	93,288
Contributions made including credited interest	(147,942)	(86,011)
Increase (decrease) in net OPEB obligation	(31,074)	7,277
Net OPEB obligation, beginning of period	99,475	92,198
Net OPEB obligation, end of period	$ 68,401	$ 99,475

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan and the net OPEB obligation for the three most recent years are as follows:

Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2012	$ 89,330	77.52%	$ 92,198
2013	93,288	92.20%	99,475
2014	116,868	126.59%	68,401

Funded Status and Funding Progress

The funded status of the Plan as of December 31, 2014 and 2013, from the Plan's most recent actuarial valuation, was as follows:

	2014	2013
Actuarial accrued liability (AAL)	$ 2,419,569	$ 2,145,567
Value of plan assets	2,387,174	2,262,126
Unfunded actuarial accrued liability (asset) "UAAL"	$ 32,395	$ (116,559)
Funded ratio (value of plan assets/AAL)	98.66%	105.43%
Covered payroll (active plan participants)	$ 6,573,103	$ 6,741,726
UAAL (asset) as a percentage of covered payroll	0.49%	-1.73%

Actuarial valuations of an ongoing plan involve estimates of the value of expected benefit payments and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. 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, 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 benefits.

Actuarial Methods and Assumptions

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

In the July 1, 2013 actuarial valuation, the entry age normal cost method was used. The actuarial valuation used the rates of mortality, disability and other withdrawals used by CalPERS in the valuation of the District's pension plan. The actuarial assumptions included a 7.06 percent investment rate of return (net of administrative expenses), healthcare premium increases starting at 9.0 percent and declining to 4.64 percent for 2025 and later, a general inflation assumption of 3.0 percent, and projected salary increases of 3.25 percent. The UAAL is being amortized over a level percentage of projected payroll over a 30 year open period.

NOTE 13 – Other Nonoperating Revenues

Other nonoperating revenues for 2014 includes an entitlement fee of $736,000 received from an owner of land outside the District boundaries who is in the process of annexing his property to the District. Because the annexation requires LAFCo approval and the LAFCo process has been very slow, the landowner entered into an agreement with the District entitling the subject property to receive irrigation water from the District immediately, even before the annexation is complete, in exchange for the entitlement fee which is 75% of the amount of the annexation fee. If the annexation cannot be completed, the subject land is entitled to receive water for 50 years. If the annexation is completed, the entitlement fee will be credited toward the annexation fee. Water delivered under the entitlement agreement is subject to a volumetric rate that is 7 times higher than in-district customers pay.

Other nonoperating revenues also includes a payment from a real estate developer in lieu of replacing a well which was in the way of the development project, and income from Lathrop Irrigation District for electric utility billing and related services.

NOTE 14 – 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 disaster, for which the District carries commercial insurance and is a member of the Special Districts Risk Management Authority (SDRMA). SDRMA is a risk pooling self-insurance authority, created under the provisions of California Government Code Section 6500 et. seq. The purpose of SDRMA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. The following is a summary of the insurance policies in force carried by the District as of December 31, 2014.

Type of Coverage	Limit per Occurrence	Aggregate Limit	Deductible
General liability	$ 10,000,000	$ -	$ 500
Automobile liability (incl. personal injury, property damage)	10,000,000		1,000
Uninsured/Underinsured motorists	750,000		
Employment practices liability	10,000,000	10,000,000	
Workers comp - statutory	Statutory		
Workers comp – employer liability	5,000,000		
Public officials and employees E & O	10,000,000	10,000,000	
Personal liability for Board members	500,000	500,000	500
Employee benefits liability	10,000,000	10,000,000	
Property coverage (including fire & theft)	88,982,900		10,000
Property coverage - flood	10,000,000		250,000
Employee dishonesty	400,000		35,000
Boiler & machinery	100,000,000		1,000
Excess insurance	40,000,000		

The District paid no material uninsured losses during the last three fiscal years and had no significant reductions in coverage during the year. Liabilities of the District are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. The District considers claims incurred and reported, as well as claims incurred but not reported, to be immaterial and has not accrued an estimate of such claims payable.

NOTE 15 – Commitments and Contingencies

Contract Commitments

The District had the following significant contract commitments outstanding as of December 31, 2014 and 2013:

Project Name	Contract Amount	Remaining Commitment Dec. 31, 2014	Remaining Commitment Dec. 31, 2013
Contract to study feasibility of pressurizing the irrigation distribution system	$750,000	$291,710	$663,992

State Water Resources Control Board Proceedings and Related Proceedings.

Bay Delta Water Quality Standards. In Decision 1641, the State Water Resources Control Board ("SWRCB") ordered the implementation of the flow schedule described in the San Joaquin River Agreement, to which the District is a party, to implement the Water Quality Control Plan for the San Francisco Bay/Sacramento-San Joaquin Delta Estuary it adopted in May 1995 ("Bay-Delta Standards".)

The SWRCB is in the process of updating the Bay-Delta Standards. The SWRCB is expected to prepare a plan based on the environmental document and at some point in the future, commence proceedings to enforce the new standards. In past enforcement proceedings, the SWRCB has implemented standards based on the water rights priority system. The effect of the new standards on the District's water supply depend upon what standard is adopted and how the SWRCB implements the new standard.

Endangered Species Issues. A biological opinion issued by the U. S. Fish & Wildlife Service in June 2009 imposed new flow requirements on the U. S. Bureau of Reclamation's ("USBR") operation of New Melones Reservoir. The biological opinion may require that the District divert less water in certain years. The District challenged the biological opinion in U.S. District Court, and the court overturned the opinion and affirmed that the Districts' water rights are not subject to the biological opinion. However, the Court left the opinion in effect until a new biological opinion can be developed. This could result in less storage at New Melones Reservoir and could reduce the capability of the USBR to meet its obligations, in some years, to provide water from New Melones Reservoir to the District under the 1988 Agreement and Stipulation.

Pollution standards under Clean Water Act. The Central Valley Water Quality Control Board is charged with responsibility to establish a program to set total maximum daily loads ("TMDL") for the various pollutants that contribute to the San Joaquin River and its tributaries being listed as impaired water bodies. The river and its tributaries are also listed as impaired for temperature because of adverse impacts to fisheries. The District is potentially subject to TMDL enforcement measures to the extent that its diversion from the Stanislaus River, or its releases of drain water to the Stanislaus and San Joaquin Rivers, contribute to the problem. The possible impacts on the District are unknown at this time. The District has been participating in these processes through the San Joaquin River Group Authority.

Retail Electric Litigation. The San Joaquin County Local Agency Formation Commission ("LAFCo") approved the District's plan to provide electric utility distribution services in December, 2014. PG&E filed a lawsuit in March, 2015 requesting to modify or overturn the LAFCo approval. SSJID plans to participate with LAFCo in the defense of the LAFCo decision.

Other Legal Contingencies. The District is a party to a number of claims by current and former employees and other parties for a variety of matters. Management believes there will be no material adverse financial impacts to the District due to these claims.

Concentration. The District receives a significant portion of its revenue from Tri-Dam Project. A significant reduction in this revenue for a prolonged period could have an impact on the District's operations.

NOTE 16 – Change in Estimate

The method for estimating the sick leave portion of the liability for compensated absences was changed in 2013. This change of estimate resulted in a reduction of $1,284,281 to the compensated absences liability, and the payroll taxes and benefits expense, compared to what these amounts would have been using the prior estimating method. Beginning in 2013, unused sick leave hours attributable to employees' past service as of the balance sheet date, which will eventually be exchanged for OPEB, are excluded from the estimation of the compensated absences liability because those hours are recognized in the net OPEB obligation.

NOTE 17 – Subsequent Events

The District has evaluated events subsequent to the balance sheet dates through May 15, 2015. GASB Statement No. 56 requires consideration of subsequent "events that provide evidence with respect to conditions that did not exist at the date of the statement of net assets [balance sheet] but arose subsequent to that date." These subsequent events must be disclosed if their disclosure is essential to the user's understanding of the financial statements.

During January, 2015 the District received a distribution of $2.5 million from Tri-Dam Project.

Since December 31, 2014 it has become apparent that the three year drought will become a four year drought. January, 2015 was the driest January in recorded history in the District and the Stanislaus River watershed. The winter and spring have continued very dry into 2015. This is expected to result in continuing significant reductions to hydro-electric generation revenues to the Tri-Dam Project and the Tri-Dam Authority in 2015. One expected consequence of the drought is a continuation of the recent trend of reduced distributions to the District into 2015. Another consequence of the drought is that the District has imposed a 36 inch limit on irrigation water deliveries for 2015. This is a reduction from the 2014 average of 42 inches and will cause a reduction in the variable volumetric portion of the District's irrigation revenues. Nonetheless, the District expects to satisfy the debt service coverage requirement of the indenture of trust for the Refunding Revenue Bonds Series 2012A.

NOTE 18 – New Accounting Standards

In June 2012, the GASB approved Statement No. 68, Accounting and Financial Reporting for Pensions. This Statement requires governments providing defined benefit pension plans to recognize their long-term obligation for pension benefits as a liability on the statement of net position and to more comprehensively and comparably measure the annual costs of pension benefits. This Statement also requires revised and new note disclosures and required supplementary information (RSI) to be reported by employers. The implementation of this GASB Statement will have a significant impact on the District's financial statements and is effective for the District's December 31, 2015 financial statements. The District will fully analyze the impact of this new Statement prior to the effective date above.

In November 2013, the GASB approved Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68. GASB Statement No. 68 requires a state or local government employer to recognize a net pension liability measured as of a date (measurement date) no earlier than the end of its prior fiscal year. This Statement requires that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions made subsequent to the measurement date of the beginning net pension liability. This Statement is required to be implemented simultaneously with Statement No. 68.

Required Supplementary Information

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Required Supplementary Information for Other Postemployment Benefits ("OPEB") Plan (unaudited)

The schedule of funding progress for the District's OPEB, is presented below as required supplementary information, and reports multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Schedule of Funding Progress for Other Postemployment Benefits Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
12/31/2012	$ 2,042,811	$ 2,059,285	$ 16,474	99.20%	$ 6,080,709	0.27%
12/31/2013	2,262,126	2,145,567	(116,559)	105.43%	6,741,726	-1.73%
12/31/2014	2,387,174	2,419,569	32,395	98.66%	6,573,103	0.49%