



May 18, 2016

Dear Shareholder:

Thank you for taking time this afternoon to attend the San Miguelito Mutual Water Company Annual Shareholder Meeting. We appreciate the interest you have shown in our water company.

Many hours of preparation have gone into today's meeting. We hope the information presented will provide you with a clear picture of the Company's operations. There will be a question and answer session after the reports.

Please take a moment to review the meeting packet; most particularly the minutes from last year's meeting.

Sincerely,

San Miguelito Mutual Water Company

Board of Directors and Staff

San Miguelito Mutual Water Company

Annual Meeting

May 18, 2016, 2:00 p.m.
Registration begins at 1:30 p.m.

San Miguelito Mutual Water Company Office

Agenda

Registration of Shares – 1:30 to 2:00	Dawn Barlow & Michelle Edson, Admin Staff
Pledge of Allegiance	John Delehant, President
Minutes of Last Meeting	Gerri Hall, Secretary
President's Remarks	John Delehant, President
Nomination of Directors	John Delehant, President
Election of Directors	John Delehant, President
Financial Report	Tom Athey, Financial Officer
Manager's Report	Rick Koon, General Manager
Capital Projects Review	Rick Koon, General Manager
Questions and Answers	Board of Directors, Consultants and Management
Election Results	Gerri Hall, Secretary
Adjourn	John Delehant, President

Board of Directors

May 18, 2016

OFFICE HELD	NAME	EXPIRATION OF TERM
President	John Delehant	May, 2017
Financial Officer	Tom Athey	May, 2018
Secretary	Gerri Hall	May, 2016
Vice President	Ben Banks	May, 2016
Director	Vic Montgomery	May, 2017
Director	Robin L. Rossi	May, 2018
Director	Rick Koon	May, 2016

SAN MIGUELITO MUTUAL WATER COMPANY
SHAREHOLDERS LIST
AS OF 05/07/2016

PELICAN POINT RESIDENTS	117 SHARES
INDIAN HILL RESIDENTS	162 SHARES
SAN LUIS BAY MOBILE ESTATES	2 SHARES
PACHO LTD. PARTNERSHIP	4 SHARES
SAN LUIS BAY INN TIMESHARE (SAN LUIS BAY INN)	144 SHARES
SILVER OAKS ESTATES RESIDENTS	6 SHARES
KINGFISHER DEVELOPMENT	14 SHARES
BDC/AVILA LAND INVESTMENT LLC	19 SHARES
KINGFISHER RESIDENTS	97 SHARES
CDF-FIRESTATION #13	1 SHARE
SKYLARK MEADOW RESIDENTS	65 SHARES
HERON CREST RESIDENTS	66 SHARES
HERON CREST/QUAIL CANYON RESIDENTS	22 SHARES
MALLARD GREEN RESIDENTS	53 SHARES
SCM AVILA BEACH PARTNERS LLC	51 SHARES
ROBIN L. ROSSI (GOLF COURSE)	141 SHARES
ROBIN L. ROSSI TRUST	3 SHARES
AVILA VILLAGE II LLC	6 SHARES
OUAT/LEXINGTON REAL PROP PTNRS LLC	30 SHARES
ROBIN L. ROSSI (East & West Harford & TR 2149 L 279)	3 SHARES
OUAT/COVELOP HOLDINGS, LLC	14 SHARES
AVILA BAY ATHLETIC CLUB (AVILA VILLAGE)	3 SHARES
AVILA VALLEY ORCHARDS RESIDENTS	14 SHARES
COVELOP	1 SHARE
SMMWC	2 SHARES
MADDEN CUMBERLAND ADAMSKI	1 SHARE
TOTAL SHARES IN SMMWC	1041 SHARES

SAN MIGUELITO MUTUAL WATER COMPANY

Annual Shareholder Meeting Minutes

2:00 PM Wednesday, May 20, 2015

SMMWC Office, 1561 Sparrow Street
San Luis Obispo, CA

REGISTRATION OF SHAREHOLDERS

Each Shareholder was asked to sign in and was provided with copies of the Agenda, List of Directors, Shareholder List, May 21, 2014 Minutes, 2014 Reviewed Financial Statements, 2015 Budget, 2014/2015 Rate Schedule, Manager's Report, Operations Report and ballot with registration number assigned by the registrar.

PRESENT

Directors: Gerri Hall, John Delehant, Tom Athey, Rick Koon, Rob Rossi, Ben Banks
Staff: Dawn Barlow, Customer Service and Operations Support
ABSENT: Vic Montgomery
Legal Counsel: Tim Carmel, Carmel & Naccasha LLP
Shareholders: David Sutton, Brent Parker, Robert Allen, Vi Matlin, Carol Goldberg, Sharon Suits, Melanie Zacharias, Glenn Varano, Lillian Bareither, Cynthia Perkins, Rita Hoffman, Gail Blue, Linda Erwin, Sherri Danoff, Kristie Kemp, Ray and Ann Feeser, Bob Muriset, Robert Campbell, Elvera Hornung, Robin Weed-Brown, Heather Nelson, Denis Sullivan, Fred Goodill, Gisela Matteson, Thea Beddingfield, Terry Slivka, Judith Belanger, Ron Keikow, Jeannette Krone, Ron Geikow, Jeannette Krone, Henlie Sturgeon, Helene Frainer, Betty Hartig, Philip Weary

PLEDGE OF ALLEGIANCE & PRESIDENT'S REMARKS

President Delehant opened the meeting at 2:01 p.m. with the pledge of allegiance, welcomed the shareholders in attendance and introduced the Board of Directors, staff and consultants present.

President Delehant asked if there was a quorum.

The San Miguelito Mutual Water Company Bylaws state: *"The presence in person or by proxy of twenty percent (20%) of the shareholders shall constitute a quorum for the transaction of business at any meeting of shareholders."*

Dawn confirmed there were a sufficient percentage of the shares represented and a quorum was declared. (See representation detail attached.)

MINUTES OF LAST MEETING

President Delehant asked the shareholders to review the minutes of the last meeting. There was a motion made by Sherri Gooding seconded by Gail Blue to accept the minutes of the May 21, 2014 meeting as written. Motion passed.

NOMINATION & ELECTION OF OFFICERS

President Delehant announced there were two vacancies on the Board this year. Incumbents, Tom Athey and Rob Rossi have expressed interest in running again. Pursuant to his request at the April 2015 Board meeting, Indian Hill resident, Ray Feeser was added to the ballot. President Delehant asked if there were any additional nominations from the floor. Hearing none, the nominations were closed. Ballots were collected to be counted and elections were closed.

The voting committee was excused to count the votes. Ben Banks, Board Vice-President, Michelle Edson, Accounting and Administrative support and audience member Terry Slivka counted the votes.

FINANCIAL REPORT

General Manager Rick Koon presented the San Miguelito Mutual Water Company 2014 Financial Statements, as prepared by the accounting firm of Moss, Levy & Hartzheim LLP.

MANAGER'S REPORT, OPERATIONS REPORT, 2014 and 2015 CAPITAL PROJECTS REVIEW

General Manager, Rick Koon, presented the reports as follows:

General Managers Report –

- Total water connections are 668 and total number of shares is 1044.
- Water production for 2014 was 195 acre feet. Of that, 49% or 95 acre feet were delivered by state water; the remaining 51% came from our three wells.
- Total wastewater production for 2013 was 75 acre feet.

Operations Report -

- The water distribution system and wastewater collections system are functioning normally. We have seen increased root intrusions into the collections system due to the drought.
- We continued our energy conservations by replacing older pumps and motors with energy efficient models.
- Tank 550 interior has been sandblasted and repainted.
- 70% of the force main between Lift Stations #1 and #2 have been replaced and the entire force main has been replaced between Lift Stations #2 and #3.
- The maintenance building was completed in late fall 2013.
- SMMWC is currently in Stage 1 Conservation, voluntary 10% reduction in water use. If necessary, Stage 2 conservation will be implemented which requires a mandatory reduction of 10% residential use, 10% commercial use and 50% irrigation.
- The sludge was removed from the treatment plant and a torn baffle was replaced.
- A Hydro-Geological Study of our local aquifers is under way.

Presentation -

- Pictures were shown of the various major repairs and capital improvement projects completed in 2014.

Questions and Answers:

Question: Was the force main replacement done by our employees or did we hire an outside company? Is SMMWC eligible to receive funding from other sources, such as FEMA for these type of projects?

Answer: The force main project was done by outside contractors. SMMWC is not eligible for FEMA funding.

Question: When will the Hydro-Geologic Study be done? Will the report be made available to shareholders?

Answer: The study is expected to be complete in about 2 months. Once the study has been reviewed, we will make it available on our website.

Question: How often are the ponds dredged?

Answer: The last time the ponds were dredged was in 2002. At that time, approximately 8 feet of sludge was removed.

Question: Does SMMWC keep track of the hardness of the water?

Answer: We do keep track of the hardness and report it to our shareholders in the annual Consumer Confidence Report.

Question: Does SMMWC foresee recycling its wastewater?

Answer: We are looking into the possibility of recycling wastewater to use for irrigation purposes; however the wastewater would need to be filtered and disinfected before use.

Question: How much water storage does SMMWC have? How big is our aquifer?

Answer: Our above ground storage holds about 1 million gallons. Our aquifer is approximately 82 square miles.

ELECTION RESULTS

Board Secretary Gerri Hall announced the results of the election of directors. Tom Athey and Rob Rossi received the greatest number of votes and have been elected, by the shareholders, to serve as directors for a three year term ending in May 2018.

ADJOURNMENT

The meeting was adjourned at 3:09 p.m.

Proceedings recorded by:
Dawn Barlow, Administrative Support

Respectfully Submitted,

Approved:

Gerri Hall, Secretary

John Delehant, President

DRAFT

ANNUAL SHAREHOLDERS MEETING

May 20, 2015

SHARE REPRESENTATION

1044 Total Shares – 20% Necessary for Quorum 209 Shares

Rob Rossi – Cottage, Golf, E. Hartford, AVLLC	198 shares
Tom Athey	1 share
Rick Koon – KFD & KFCI Proxies	38 Shares
Gerri Hall – 1 plus 6 Res. Proxy	7 shares
John Delehant – plus 2 Res. Proxy	3 shares
Ben Banks – SLBI Proxy	144 shares
Residents in Attendance – 33 plus 2 Res. Proxy	35 shares
Ballots by Mail - 175	175 shares
TOTAL SHARES REPRESENTED	501 shares

ELECTION RESULTS – BY BALLOT

Tom Athey	3 year term
Rob Rossi	3 year term

DRAFT

San Miguelito Mutual Water Company

Reviewed Financial Statements

December 31, 2015

San Miguelito Mutual Water Company

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

Stockholders
San Miguelito Mutual Water Company
Avila Beach, CA 93424

We have reviewed the accompanying balance sheet of San Miguelito Mutual Water Company as of December 31, 2015, and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Accountant's Responsibility

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Moss, Levy & Hartzheim LLP

April 25, 2016

San Miguelito Mutual Water Company
Balance Sheet
December 31, 2015

Assets

Current assets

Cash and cash equivalents (Note 1)	\$ 398,545
Accounts receivable (Note 1)	92,075
Deposits	448
Prepaid expenses	15,288

Total current assets 506,356

Property and equipment (Note 4)	10,346,464
Less accumulated depreciation	(3,834,970)

Net property and equipment 6,511,494

Other assets

Capital and state water reserves (Note 3)	1,445,673
Reimbursable projects, restricted cash (Note 3)	28,312
Local water rights (Note 1)	238,030

Total other assets 1,712,015

Total assets \$ 8,729,865

Liabilities and stockholders' equity

Current liabilities

Accounts payable	\$ 49,986
Payroll liabilities	42,408

Total current liabilities 92,394

Other liabilities

Reimbursable projects (Note 1)	28,312
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Total liabilities 120,706

Stockholders' equity

Common stock, no par value, 10,000 shares authorized	
1,041 shares issued and outstanding	677,383
Additional paid in capital (Note 7)	9,627,442
Retained earnings	
Reserved for state water construction, existing customers	8,466
Reserved for state water construction, subcontractors	12,699
Unreserved	(1,716,831)

Total stockholders' equity 8,609,159

Total liabilities and stockholders' equity \$ 8,729,865

See accompanying notes and independent accountants' review report.

San Miguelito Mutual Water Company
Statement of Income
For the Year Ended December 31, 2015

Revenue		
Water and sewer usage fees	\$	972,927
New service fees		8,070
Late and other administrative fees		32,033
Contract services		12,153
Building rent		18,000
Sewer facilities rent		45,420
State water payment, stockholders with undeveloped property		55,810
	Total revenue	<u>1,144,413</u>
Operating expenses		
State water		331,288
Personnel costs		255,765
Consulting		69,539
Depreciation (Note 4)		352,756
Lab tests		15,016
Other program		11,570
Repairs and maintenance		49,343
Chemicals, supplies and tools		21,574
Training, education, health and safety		4,666
Telephone and communications		4,259
Uniforms		3,878
Utilities		67,644
Vehicles		11,666
	Total operating expenses	<u>1,198,964</u>
General and administrative expenses		
Accounting and legal		53,464
Bank fees		3,922
Consulting		6,951
Insurance		22,645
Licenses, fees and dues		16,857
Office supplies and equipment		15,684
Personnel costs		91,824
Property taxes		7,470
Rent		18,000
Repairs and maintenance		3,712
Strategic planning		43,604
Telephone and internet		3,912
Utilities		3,424
	Total general and administrative expenses	<u>291,469</u>
	Total expenses	<u>1,490,433</u>
	Loss from operations	<u>(346,020)</u>
Other income (expense)		
Interest		14,356
	Total other income (expense)	<u>14,356</u>
	Loss before income taxes	<u>(331,664)</u>
Provision for income taxes, current (Notes 1 and 6)		<u>(800)</u>
Net	Net loss	<u><u>\$ (332,464)</u></u>

See accompanying notes and independent accountants' review report.

San Miguelito Mutual Water Company
Statement of Changes in Stockholders' Equity
For the Year Ended December 31, 2015

	Common Stock		Additional	Retained	
	Shares	Cost	Paid-in	Earnings	Total
			Capital	(Deficit)	
Balance, December 31, 2014	1,041	\$ 677,383	\$ 9,272,803	\$ (1,363,202)	\$ 8,586,984
Capital contributions			354,639		354,639
Net loss				(332,464)	(332,464)
Balance, December 31, 2015	<u>1,041</u>	<u>\$ 677,383</u>	<u>\$ 9,627,442</u>	<u>\$ (1,695,666)</u>	<u>\$ 8,609,159</u>

See accompanying notes and independent accountants' review report.

San Miguelito Mutual Water Company
Statement of Cash Flows
For the Year Ended December 31, 2015

Cash flows from operating activities:	
Net loss	\$ (332,464)
Adjustments to reconcile net loss to net cash provided by operating activities:	
Depreciation	352,756
(Increase) decrease in:	
Accounts receivable	72,585
Prepaid insurance	124
Reimbursable projects	1,499
Increase (decrease) in:	
Accounts payable	5,806
Payroll liabilities	8,958
Reimbursable projects	(1,499)
Net cash provided by operating activities	<u>107,765</u>
Cash flows from investing activities:	
Purchases of property and equipment	(205,865)
Purchases of certificates of deposit	<u>(285,082)</u>
Net cash used by investing activities	<u>(490,947)</u>
Cash flows from financing activities:	
Capital contributions	<u>354,639</u>
Net cash provided by financing activities	<u>354,639</u>
Net decrease in cash and cash equivalents	(28,543)
Cash and cash equivalents at beginning of year	<u>427,088</u>
Cash and cash equivalents at end of year	<u><u>\$ 398,545</u></u>
Supplementary cash flow information:	
Cash paid for state taxes	<u><u>\$ 800</u></u>

See accompanying notes and independent accountants' review report.

Note 1 - Nature of Operations and Significant Accounting Policies

Nature of Operations

San Miguelito Mutual Water Company (SMMWC) is a California corporation established to acquire and hold water and water rights, and to maintain water works and distribution facilities for the purpose of furnishing and distributing water for domestic and irrigation purposes to its stockholders, at cost; including the use of the water works and distribution facilities for the purpose of conserving, treating and reclaiming water; and providing sewage treatment services to its stockholders, at cost.

Significant Accounting Policies

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other accruals.

Use of Estimates

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

Revenue Recognition

SMMWC recognizes its revenues, including water and sewer utility fees, rentals, and interest, when earned on accrual basis of accounting.

Income Taxes

Income taxes are provided for the tax effect of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes. Deferred taxes are recognized for differences between the basis of assets and liabilities for financial statement and income tax purposes. The deferred tax assets and liabilities represent the future tax return consequences of those differences, that will either be taxable or deductible when the assets and liabilities are recovered or settled.

The Income Taxes Topic of Financial Accounting Standards Board (FASB) Accounting Standards Codification requires, among other things, the recognition and measurement of tax positions based on a "more likely than not" (likelihood greater than 50% approach). As of December 31, 2015, the SMMWC did not maintain any tax positions that did not meet the "more likely than not" threshold and, accordingly, all tax positions have been fully recorded in the provision for income taxes. SMMWC's policy is to consistently classify interest and penalties associated with income taxes separately from the provision for income taxes, accordingly, no interest or penalties associated with income taxes have been included in the provision for income taxes. SMMWC does not expect any material changes through December 31, 2016. Although SMMWC does not maintain any uncertain tax positions, tax returns remain subject to examination by the Internal Revenue Service for years ended on or after December 31, 2012, and by the California Franchise Tax Board for the years ended on or after December 31, 2011.

Comprehensive Income

There are currently no differences between net income or loss, and comprehensive income or loss.

Cash and Cash Equivalents

Cash and cash equivalents consist of a non-interest bearing checking account, and an interest bearing savings account that are used for operations. Reimbursable projects, restricted cash, and working capital reserves invested in certificates of deposit are not considered cash equivalents since these amounts are restricted in use.

Accounts Receivable

Receivables are accounted for on the accrual basis and become past due after 30 days. No allowance for uncollectable accounts has been provided, as SMMWC typically collects all outstanding amounts. Receivables are written off if all efforts at collection have failed and management determines that collection is unlikely. At December 31, 2015, accounts receivable totaled \$92,075, consisting of \$91,524 owed for December utility bills and the state water receivable of \$551.

San Miguelito Mutual Water Company
Notes to the Financial Statements
For the Year Ended December 31, 2015

Note 1 - Nature of Operations and Significant Accounting Policies (continued)

Water Rights

Local water rights are recorded at cost, and do not reflect fair value. SMMWC is the grantee of water rights. Local water is a renewable asset; therefore local water rights are not amortized.

Property, Plant and Equipment

Expenditures for property and equipment in excess of \$5,000 are capitalized and recorded at cost. Depreciation is computed utilizing the straight-line method over the estimated useful lives of the assets. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. The cost and accumulated depreciation of property sold or retired is removed from the related asset and accumulated depreciation accounts and any resulting gain or loss is recorded in the year of disposal.

Reimbursable Projects

Reimbursable projects are water or sewer utility projects or research, governed by contract agreements, completed by SMMWC and reimbursed by the contracting entity. Funds for reimbursable projects are held in a separate bank account restricted for this purpose, and are offset by a reimbursable projects liability on the accompanying balance sheet. At December 31, 2015, SMMWC has reimbursable contract agreements with San Luis Bay Inn Timeshares, Inc., Chevron USA, and Rossi Enterprises.

Subsequent Events

Subsequent events have been evaluated through April 25, 2016, which was the date the financial statements were available to be issued.

Note 2 - Concentrations of Risk

Amounts held in financial institutions occasionally are in excess of the Federal Deposit Insurance Corporation and Securities Investor Protection Corporation limits. SMMWC deposits its cash with high quality financial institutions, and management believes SMMWC is not exposed to significant credit risk on those amounts. At December 31, 2015, SMMWC had \$934,198 in excess of depository insurance limits.

SMMWC's income is generated from consumers who are also stockholders of the Company. Accordingly, concentrations of sales or receivables are expected.

Note 3 - Restricted Cash

SMMWC has multiple restricted cash accounts, consisting of capital and working capital reserves totaling \$1,473,985. Included in this amount is \$1,445,673 for repair and replacement of fixed assets, and \$28,312 for reimbursable projects, at December 31, 2015.

Note 4 - Property and Equipment

Depreciation expense totaled \$352,756 for the year ended December 31, 2015. Property and equipment consisted of the following at December 31, 2015:

	Estimated Useful Lives in Years	2014	Additions	Disposals	2015
Water and sewage distribution	15-45	\$ 8,242,949	\$ 205,865	\$ -	\$ 8,448,814
State water construction	39	836,072			836,072
Building	39	619,203			619,203
Vehicles	5-7	102,064			102,064
Office equipment	3-7	79,463			79,463
Land, Lot 17		130,424			130,424
Land, Lot 67		130,424			130,424
Property, plant and equipment at cost		10,140,599	205,865		10,346,464
Accumulated depreciation		(3,482,214)	(352,756)		(3,834,970)
Net property and equipment		<u>\$ 6,658,385</u>	<u>\$ (146,891)</u>	<u>\$ -</u>	<u>\$ 6,511,494</u>

Note 5 - Line of Credit

SMMWC has a \$350,000 business revolving line of credit with Wells Fargo Bank that matures on December 31, 2016, and is secured by SMMWC's certificates of deposit, and bears an interest rate of prime plus .5%, or 6% minimum on borrowed funds. There was no activity for the line of credit in 2015 and no outstanding principal balance December 31, 2015.

Note 6 - Deferred Income Taxes

SMMWC uses accounting methods that recognize depreciation sooner for income tax reporting than for financial statement reporting, resulting in a valuation difference that would normally create a deferred income tax liability. SMMWC has also accrued both federal and state income tax net operating losses, over the past ten years, which would normally create a deferred income tax asset. The deferred income tax asset created by SMMWC's net operating losses exceeds the deferred income tax liability created by SMMWC's depreciation expense differences. A net deferred income tax asset totaling \$535,696 was calculated for the year ended December 31, 2015. Since SMMWC does not expect to utilize this deferred tax asset in the foreseeable future a valuation allowance totaling (\$535,696) that offsets the deferred tax asset was recorded, for net deferred taxes of zero at December 31, 2015. The net change in the net deferred tax asset and valuation allowance totaled \$40,504 for the year ended December 31, 2015.

SMMWC is subject to state income tax at 8.84% of taxable income, or \$800, whichever is greater. The provision for state income tax for the year ended December 31, 2015 was \$800.

Note 7 - Contributed Capital

SMMWC charges a monthly special assessment to all stockholders for the repair and replacement of property and equipment. This amount is recorded as additional paid in capital on the accompanying balance sheet, and totaled \$354,639, for the year ended December 31, 2015.

Note 8 - Commitments and Contingencies

SMMWC entered into agreements with San Luis Obispo County Flood Control and Water Conservation District, and the Central Coast Water Authority to bring state and local water to the area serviced by SMMWC in exchange for payment of SMMWC's pro rata portion of the state's water construction costs based on the annual amount of water requested, and its pro-rata share of ongoing operating and maintenance costs of the state water system. State water construction costs including capitalized interest and other fees totaled \$836,072, at December 31, 2015. See Note 4.

Note 9 - Retirement Plan

SMMWC offers an individual retirement account (IRA) retirement plan to its employees who work thirty or more hours each week, and have completed ninety days of employment. SMMWC contributes an amount equal to three percent of all eligible employees' pre-tax wages each month. Participating employees are enrolled in the plan after six months of continuous employment, when all accrued retirement funds are placed in the plan trust. Retirement plan expense for the year ended December 31, 2015 totaled \$8,215.

Note 10 - Rent

Monthly transfers of \$1,600, or \$19,200 annually, are transferred from operations to capital reserves for use of the building. The amounts are recorded as building rent revenue and rent expense in the accompanying statement of income.

San Miguelito Mutual Water Company
Operating Earnings Report
SUMMARY RESULTS (seasonally adjusted)
2016 Operational Budget Approved

	2015 Budget	2015 Est. Actuals	2016 Budget
Total Operating Revenues			
Water Revenue	\$1,393,471	\$1,317,962	\$1,462,850
Waste Water Revenue	\$813,829	\$754,906	\$835,330
Other General Revenue	\$539,442	\$510,800	\$580,828
	\$40,200	\$52,256	\$46,692
Total Expenses			
Total Operating Expenses	(\$831,750)	(\$795,907)	(\$867,400)
Total General & Admin Expenses	(\$516,150)	(\$473,250)	(\$501,100)
	(\$315,600)	(\$322,657)	(\$366,300)
Gross Operational Earnings	\$561,721	\$522,055	\$595,450
Other Income and Expenses			
Operational Earnings Transferred to State Water Reserve	(\$283,081)	(\$283,081)	(\$287,880)
Operational Earnings Transferred to Capital Reserves	(\$299,055)	(\$299,055)	(\$303,177)
Operational Funds Interest and Expenses	(\$450)	(\$1,198)	(\$1,210)
Net Operational Earnings	(\$20,865)	(\$61,279)	\$3,183

Projected Operational Earnings

Notes

	Operating Cash	Operational Contingency Reserves
YE 2015	\$78,655	\$319,690
YE 2016	\$81,838	\$350,000
Min Target	\$70,000	\$350,000

		San Miguelito Mutual Water Company Operating Revenue/Expense Report			
		Detail Review			
		2016 Final Operational Budget			
		2015 Budget	2015 YTD Est Actuals	2016 Budget	
Revenue:					
	Water Revenue		\$813,829	\$754,906	\$835,330
	Residential Customers	\$474,871		\$470,657	\$480,519
	Commercial Customers	\$167,568		\$162,802	\$182,963
	Irrigation Customers	\$171,390		\$140,417	\$161,848
	Construction Meters	\$0		\$105	
	Wastewater Revenue		\$539,442	\$510,300	\$580,828
	Residential Customers	\$349,413		\$344,335	\$400,274
	Commercial Customers	\$183,683		\$152,802	\$173,054
	Contract Customers	\$6,346		\$13,663	\$7,500
	Other General Revenue		\$40,200	\$52,256	\$46,692
	New Meter Service, Late Fees & Misc.	\$15,000		\$20,862	\$17,000
	Share Transfers & Admin Fees	\$5,000		\$9,125	\$7,000
	Service Contract (Avila Valley Estates)	\$16,200		\$12,153	\$16,692
	Time & Material Work (HOA/Commercial)	\$0		\$0	\$0
	Dormant Account	\$4,000		\$10,116	\$6,000
	Water Softener		\$0		
	Total Revenue		\$1,393,471	\$1,317,962	\$1,462,850

		2015 Budget	2015 YE Est Actuals	2016 Budget	
	Total General & Administrative Costs				
	Office Facilities Expense				
	Rent 6500	(\$19,200)	(\$19,200)	(\$322,657)	(\$366,300)
	Maintenance/ Security 6465	(\$4,000)	(\$3,712)	(\$37,714)	(\$43,400)
	Property Tax 6470	(\$8,000)	(\$7,470)		(\$20,400)
	Gas 6476	(\$400)	\$50		(\$4,500)
	Electric 6575	(\$3,000)	(\$2,136)		(\$8,600)
	Office Telephone/Internet 6800	(\$4,000)	(\$3,912)		(\$400)
	HQA Fees 6485	(\$2,000)	(\$1,334)		(\$3,000)
	Office Expenses			(\$15,689)	(\$2,000)
	Office Supplies/Repairs 6450	(\$8,500)	(\$8,367)		(\$9,000)
	Office Equipment (Depreciable) 6455	(\$2,000)	(\$845)		(\$2,000)
	Postage 6460	(\$4,000)	(\$3,846)		(\$5,000)
	Copy Costs 6150	(\$3,000)	(\$2,627)		(\$3,000)
	Staff Administrative Cost			(\$90,320)	(\$102,600)
	Staff Labor Base Pay 6100	(\$67,500)	(\$67,891)		(\$75,500)
	Staff Labor (Overtime) 6101	(\$500)	(\$44)		(\$1,000)
	Payroll Taxes 6110	(\$7,300)	(\$6,646)		(\$8,100)
	Worker's Compensation Insurance 6115	(\$800)	(\$715)		(\$800)
	Health Insurance 6120	(\$15,000)	(\$12,721)		(\$14,500)
	Retirement 6125	(\$2,300)	(\$2,225)		(\$2,400)
	Education/Training 6130	(\$300)	(\$79)		(\$300)
	Contract Supervision			(\$31,995)	(\$33,000)
	Management 5030.10	(\$30,000)	(\$31,995)		(\$33,000)
	Other Administrative Costs			(\$42,924)	(\$47,300)
	Insurance - Liability/Auto 6250	(\$25,500)	(\$22,645)		(\$25,500)
	Bank Charges 6050	(\$3,500)	(\$3,422)		(\$4,000)
	Late Charges 6310	(\$100)	\$0		(\$100)
	License, Fees, Dues 6350	(\$17,000)	(\$16,657)		(\$17,500)
	Recruiting Expense 6600	(\$100)	\$0		(\$100)
	Staff Reimbursement 6700	(\$100)	\$0		(\$100)
	Consulting Cost			(\$60,419)	(\$56,000)
	Accounting 6020	(\$18,000)	(\$13,435)		(\$17,000)
	Engineering and Business 6090.1-6090.4	(\$7,500)	(\$6,951)		(\$8,000)
	Legal 6340	(\$26,000)	(\$40,029)		(\$30,000)
	Website	(\$1,000)	\$0		(\$1,000)
	Unscheduled Expenses 6900			\$0	\$0
	Strategic Planning - WTR & WW 6905's				
	5 year Capital Improvement Plan	(\$20,000)	\$0	(\$43,604)	(\$65,000)
	Wastewater Planning Study				(\$20,000)
		(\$15,000)			(\$5,000)
	Wild Cherry Cyn/WWTP 6905.2		\$0		
	Water Resources		(\$29,034)		
	Water Conservation 6905.5		(\$5,068)		
	LAFCO 6905.10		\$0		
	Share Distribution		(\$9,502)		
				(\$795,907)	(\$867,400)
	Operational Funds Interest and Expenses				
				(\$1,410)	(\$1,210)
	Operational Funds Interest and Taxes				
	Operational Reserves Interest	\$600	(\$106)		\$100
	State Income Tax Refund/Payment	(\$800)	(\$804)		(\$810)
	Line of Credit (350K) Fees	(\$250)	(\$500)		(\$500)
	Interest & Late Fees on Reimbursables				

San Miguelito Mutual Water Company
Summary Changes to State Water Reserves
2016 Approved Budget

State Water Reserves as of Dec 31, 2015	\$279,066	EST. Jan 2016 payment \$175,000
State Water Reserves as of Dec 31, 2016	\$282,066	
Min Target	\$180,000	

	2015 Budget	2015 Est Actuals	2016 Budget
Money Transferred to State Water Reserve Fund (219.80 AF/2015 79.93%)	\$283,081	\$283,081	\$287,876
Developer State Water Reimbursement (55.20 AF/2015 20.07%)	\$57,338	\$55,810	\$57,768
Investment Income, Late Fees, and Interest Income from SWR	\$3,000	\$3,155	\$3,000
	<u>\$343,419</u>	<u>\$342,046</u>	<u>\$348,644</u>
CONTRIBUTIONS to State Water Reserve			
DWR Charges for State Water - (275 AF)	(\$256,817)	(\$249,399)	(\$263,178)
DWR Charges for State Water Drought Buffer	(\$28,875)	(\$29,416)	(\$28,875)
CCWA(O&M Wheeling-State Water Aqueduct to Lopez)	(\$33,124)	(\$24,747)	(\$31,591)
SLOFCWCD (O&M, Wheeling - Lopez to SMMWVC)	(\$21,603)	(\$27,726)	(\$22,000)
	<u>(\$340,419)</u>	<u>(\$331,288)</u>	<u>(\$345,644)</u>
PAYMENTS from State Water Reserve	\$3,000	\$10,758	\$3,000
NET CHANGE to State Water Reserves			

Notes:

1. Money Transferred to State Water Reserve is based monthly on Water Billing Revenue from shareholders.
2. Developer State Water Reimbursement payments are to cover reserved State Water allocations for current undeveloped property. These payments are made in January and July of each year.
3. Payments to DWR for the cost of State Water and the Drought Buffer are made in January (60%) and July (40%) of each year.
DWR State Water Drought Buffer is money paid to insure that SMMWVC's State Water allocation (of 275 AF) is covered in drought conditions.
4. CCWA (Central Coast Water Authority) charges are for the treatment, O&M and wheeling of State Water from the California State Aqueduct to Lopez via the Central Coast Branch. Fixed O&M (80% of charges) billed in May. Variable O&M (10%) billed quarterly.
5. SLOFCWCD (SLO Flood Control and Water Conservation District) charges are for the treatment, O&M and wheeling of State Water from Lopez (Zone 3) to SMMWVC via CSA (County Service Area) 12.
6. DWR charges are primarily based on the full entitlement of 275 AFY. CCWA & SLOFCWCD (transmission charges) are based on a combination of entitlement, requested deliveries and actual deliveries. 275 Acre Feet is approximately 90 million gallons. (325,851 gallons per Acre Foot)
7. San Miguelito accounting is accrual basis, meaning the amount shown in Developer State Water Reimbursement, is the amount that has been invoiced not received. An accrual to cash adjustment has been added to show monies still outstanding for state water invoices.

San Miguelito Mutual Water Company
Summary Changes to Capital Reserves
2016 Approved Budget

Estimated Capital Reserves		Min Target
YE 2015	YE 2016	
\$1,918,191	\$2,119,088	\$2,000,000
		\$2,200,000

	2015 Budget	2015 Est Actuals	2016 Budget
Operational Earnings Transferred to Capital Reserves	\$299,055	\$299,055	\$303,177
Capital Reserve Fee Income (Inactive Shares)	\$81,509	\$81,509	\$83,880
Investment Interest from Capital Reserves	\$5,000	\$11,083	\$5,000
Sycamore Capital Rent	\$45,420	\$45,420	\$45,420
Operational Earnings Transferred for Office Lease	\$19,200	\$19,200	\$20,400
Total Capital Reserve INFLOW	\$450,184	\$458,277	\$457,877
2015 Capital Project Expenditures	\$0		(\$218,000)
2015 Carryover			(\$40,000)
Total Capital Reserve OUTFLOW	\$0	(\$205,858)	(\$258,000)
NET CHANGE to Capital Reserves	\$450,184	\$250,419	\$199,877

NOTES

Monthly Capital Fee		
	Water	Sewer
2015	\$14.33	\$14.33
2016	\$15.00	\$15.00
		Total
		\$28.66
		\$30.00

1. Operating Earnings Transferred to Capital Reserves should be at least equal to the number of active shares times the implicit water and sewer Capital Charges per month. Then times 12 months for the year.
2. Contribution from Gross Operating Earnings + Capital Reserve fee income from active shares should be at least equal to the Depreciation Expense. As of December 31, 2014 Depreciation Expense was about \$290,319.00
3. Capital Reserve Fee Income is a capital assessment that applies only to those shares where the developer is not developing their property, but must participate in their share of SMMWC capital improvements.
4. Office building rent of \$1700 per month is paid to Capital Reserves, which funded the building.

San Miguelito Mutual Water Company

2016 Capital Projects Approved

Projects	Acct #	Staff Contract	Priority	Start QTR	Finish QTR	Capital Labor	2016 Budget Primary	Spent YTD	2016 Budget Remaining	Cost to Complete	Projected Total Project Cost	YTD Under (Over) Budget
<u>Water System</u>												
Telemetry System Implementation Phase	1420.1	S/C	Med				\$52,000		\$52,000	\$52,000	\$52,000	\$0
Replacement/Upgrade Monitoring Equipment	1423.1	S/C	Med				\$20,000		\$20,000	\$20,000	\$20,000	\$0
<u>Wastewater System</u>												
Telemetry System Implementation Phase	1420.5	S/C	Med				\$52,000		\$52,000	\$52,000	\$52,000	\$0
Purchase Backup Aerator	1423.3	S/C	High				\$14,000		\$14,000	\$14,000	\$14,000	\$0
Realign effluent line from WWTP(included new mag meter)							\$65,000		\$65,000	\$65,000	\$65,000	\$0
<u>Other</u>												
<u>Capital Labor Reimbursement</u>												
ALL PROJECTS						\$0	\$15,000		\$15,000	\$15,000	\$15,000	\$0
Capital Projects Totals						\$0	\$218,000	\$0	\$218,000	\$218,000	\$218,000	\$0
2015 Carry Over												
Replacement WW2 Electrical Service LS 2	1420.4	C	High				\$40,000		\$40,000	\$40,000	\$40,000	\$0
Remaining Balance							<u>\$258,000</u>					

Board Mid-Year Revisions

LEGEND	
Priority:	Projects In:
HIGH - Critical for System Operations	White - Have not been started
MED - Recommended Improvement to System	Yellow - Have been started
LOW - Can be Postponed	## - Have been completed
DEF - Project has been Deferred	Lined Through - Have been canceled

**SAN MIGUELITO MUTUAL WATER COMPANY
RATE SCHEDULE
2016**

12/22/2015

RESIDENTIAL - Shareholders

Water Rates	Monthly Availability Charge	\$45.90
	(includes capital reserve)	
	5/8", 3/4" & 1" residential meters	
	Monthly Usage Charges (per 100 gallons)	
	0 gal. to 1500 gal.	\$0.000
	1,500 gal. to 10,000 gal.	\$1.100
	10,000 gal. to 50,000 gal.	\$1.350
	50,000 gal. & over	\$1.450
Sewer Rates	Monthly Availability Charge	\$54.50
	(includes capital reserve)	

COMMERCIAL, IRRIGATION & CONSTRUCTION - Shareholders

Water Rates	Monthly Availability Charge	
	(includes capital reserve)	
	3/4" or smaller meter	\$68.85
	1" meter	\$114.75
	1 1/2" meter	\$229.50 (hydrant mtr)
	2" meter	\$367.20
	3" meter	\$668.50
	4" meter	\$1,009.80
	6" meter	\$2,295.00
	8" meter	\$3,672.00
	Monthly Usage Charges (per 100 gallons)	
	0 gal. to 1500 gal.	\$0.000
	1500 gal. to 3500 gal.	\$1.100
	3500 gal. to 15000 gal.	\$1.350
	15000 gal. to 50000 gal.	\$1.450
Commercial Sewer Rates	Per 3000 gal. Water Usage	\$54.50
	(<u>minimum</u> charge \$47.02 - includes capital reserve)	

CAPITAL RESERVE FEE - Shareholders

Monthly Undeveloped Shares (per share)	\$30.00
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MISCELLANEOUS MONTHLY CHARGES

Dormant Account Charge	\$71.50
Water Softener Surcharge	\$150.00
Special Meter Read Fee (Sub-meters)	\$25.00

SERVICE CHARGES & FEES

Administration Fee	\$15.00
New Account Set-up Charge	\$35.00 (one-time fee)
Share Transfer w/certificate	\$125.00
Lost Share Fee (additional charge)	\$125.00
State Wtr Surcharge Transfer Fee (undev property)	\$75.00
State Water Allocation (undev property)	% of County Chg
Disconnect Fee/Cust Req Mtr Shut Off	\$50.00
Reconnection Fee - Cust Req	\$50.00
Reconnection Fee/Mtr Shut Off Non Pay	\$150.00
Return Check Fee - SW	\$25.00
Meter Testing	\$130.00
New Service Installations	\$450.00
(standard installation 1" or smaller meter)	
New Service Installations	Time & Material
(1 1/2" and larger meters and all meter downsizing)	
Misc. Receivables	Time & Material
Copy Cost (1st. Three pages free per month)	.33 per page

TIME & MATERIAL RATES

HOURLY LABOR RATES	REGULAR (7 am - 3:30 pm)	AFTER HOURS (3:30 pm - 7 am)
General Manager	\$95.00	\$142.50
Utility Manager	\$75.00	\$112.50
System Operator	\$60.00	\$90.00
Laborer	\$40.00	\$60.00
Clerical	\$50.00	

Note: Staff time will be portal to portal.

Expenses

Reimbursement for expenses included, as a direct result of the scope of work or at the request of the customer will be invoiced at cost plus 15%.

- All material used in drawing, printing and reproduction
- Postage and delivery charges
- Long distance telephone and data transmission
- Outside professional consultant/contractor fees
- All material required for installation and repair

PENALTIES & INTEREST

-Utility Billing Late Penalty (after the 28th of mo)	10% of balance
-Secondary Receivables Late Penalty (after 30 days)	10% of balance
-Interest - 60+ days (all receivables)	1.5% of balance per month

BILLING SCHEDULE

Utility Billing

-Meters are read at the end of each month and all charges are billed monthly on the 1st of the next month, due on the 28th.

Secondary Receivables

-State Water Availability for Undeveloped Properties - Billed in January and July each year - net 30.

-Time & Material Receivables - Billed at time of service - net 30.

NOTE: Contracts for Non-shareholders are established on a case-by-case basis to include, but not limited to, standard shareholder usage charges plus a 30% surcharge, capital fees, legal and administrative costs.

San Miguelito Mutual Water Company

General Manager's Report

Meter and Share Activity – In 2015 we installed 12 new residential water meters. As of May 2016 our totals for meters and shares are as follows:

Meter Summary

Residential	614
Commercial	21
Irrigation	33
Total	669

Share Summary

Residential	613
Commercial	196
Inactive	232
Total	1,041

Water Production 2015 – Last year we produced 50,075,556 gallons (154 acft) of water, down 44 acft from 2014. 95 acft (62%) was delivered by State water with the other 59 acft (38%) coming from our wells. There were several times throughout 2015 when we exclusively used our well water as it was easier to maintain water quality and disinfectant levels.

The distribution of our water use is:

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Residential	56%	52%	52%	55%	54%	53%	53%	52%
Commercial	21%	21%	20%	20%	21%	21%	21%	20%
Irrigation	18%	22%	25%	23%	23%	24%	25%	26%
System	05%	05%	03%	02%	02%	02%	01%	02%

Wastewater Production – For 2015, our treatment plant processed 78 acft of wastewater. Average Daily flows varied from a low of 64,339 gals per day in October to a high of 79,052 gals per day in July. For the past five years, July has been our highest flow month.

State Water 2015/2016 – For 2015 and 2016 we requested 110 acft to be delivered. According to the County, SMMWC will have 582 acft available for use by the end of 2016. For 2016 the DWR is delivering 60%.

San Miguelito Mutual Water Company

Operations Report

2015

Systems Maintenance

Both the water system and wastewater system had few relatively minor problems in 2015. We experienced no leaks in the distribution system and some minor ones around service meters. All were repaired and put back in service without incident. We added a solar chlorination device at tanks 100/200. Staff proactively removed tree roots from our sewer lines and manholes prior to the winter.

Capital Projects

Booster pump replacements were completed in conjunction with our best efforts to stay ahead of PG&E rate increases.

The sewer and water systems both had new control systems installed in preparation for the implementation of our new SCADA system coming on line in 2016.

One of our Sewage pumps was relined and the auger had to be chromed due to wear.

2016

System Maintenance

We are replacing our older controls and level indicator systems for both the tanks and lift stations.

We have curtailed any water line flushing again this year; the only flushing that may occur would be if there is a water quality issue that we need to address.

We drain and pump each one of our lift stations down on a quarterly schedule or when necessary, to eliminate problems with pumps or controls.

Capital Projects

1. Continued replacement of some of our monitoring equipment.
2. Installation of control equipment for the telemetry system at our water treatment plant.
3. Installation of control equipment for the telemetry system at our lift stations.
4. Realign the effluent line at the WWTP.
5. Investigate Well#3 for use as a domestic well.
6. Look at the possibility of reclaimed water for irrigation and a new well in the Pismo formation.