

# LAGUNA BEACH COUNTY WATER DISTRICT



INCORPORATED 1925

**COMMISSIONERS:**

BRUCE R. SCHERER, Chairman  
DEBORAH K. NEEV, Vice Chair  
MARVIN C. JOHNSON  
CHERYL KINSMAN  
MARK B. LEWIS

**GENERAL MANAGER:**

RENAE M. HINCHEY

**MANAGEMENT:**

CHRISTOPHER J. REGAN, Assistant General Manager  
RICHARD B. MATHIS, Manager of Operations  
ROBERT L. WESTPHAL, Manager of Finance

**LEGAL COUNSEL:**

WESLEY A. MILIBAND, ESQ.

January 6, 2015

Orange County Auditor-Controller  
P. O. Box 567  
Santa Ana, CA 92702-0567  
Attn: Wendy Giltner

ANNUAL AUDIT REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Dear Ms.Giltner:

Enclosed please find the Audited Financial Statement for Laguna Beach County Water District for the Fiscal Year ended June 30, 2014.

Cordially,

Robert L. Westphal  
Manager of Finance  
RL.Wocauditcont2014

**LAGUNA BEACH COUNTY WATER DISTRICT  
(A COMPONENT UNIT OF THE CITY OF LAGUNA BEACH)**

**FINANCIAL STATEMENTS**

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

**JUNE 30, 2014 AND 2013**

LAGUNA BEACH COUNTY WATER DISTRICT

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June 30, 2014 and 2013

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## INDEPENDENT AUDITORS' REPORT

The Board of Directors  
Laguna Beach County Water District  
Laguna Beach, California

### **Report on the Financial Statements**

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

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

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

### **Auditors' Responsibility**

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

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

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

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## Opinion

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

## Other Matter

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of funding progress, as identified 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 the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2014, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*White Nelson Dick Evans LLP*

Irvine, California  
December 9, 2014

**LAGUNA BEACH COUNTY WATER DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2014 and 2013

This section of the District's annual financial report presents our analysis of the District's financial performance during the fiscal year that ended on June 30, 2014. Please read it in conjunction with the financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

**Fiscal Year 2014**

- The District's net position increased by \$555,471 or 0.84 percent.
- During the year the District's total revenues increased by \$615,650 or 5.15 percent, and expenses increased by \$650,312 or 5.73 percent.

**Fiscal Year 2013**

- The District's net position increased by \$590,133 or 0.90 percent.
- During the year the District's total revenues increased by \$642,813 or 5.69 percent, and expenses increased by \$645,988 or 6.03 percent.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

**REQUIRED FINANCIAL STATEMENTS**

The Financial Statements of the District report information about the District using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities. The Statement of Net Position includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, profitability, and credit worthiness. The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

See independent auditors' report.



LAGUNA BEACH COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)

June 30, 2014 and 2013

**FINANCIAL ANALYSIS OF THE DISTRICT**

Our analysis of the District begins on page 10 of the Financial Statements. One of the most important questions asked about the District's finances is "Is the District as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position, and the Statement of Revenues, Expenses and Changes in Net Position report information about the District's activities in a way that will help answer this question. These two statements report the net position of the District and changes in them. You can think of the District's net position - the difference between assets and liabilities - as one way to measure financial health or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other nonfinancial factors such as changes in economic conditions, population growth, zoning and new or changed government legislation.

**NET POSITION**

To begin our analysis, a summary of the District's Statement of Net Position are presented in Table 1.

**TABLE 1**  
Condensed Statements of Net Position

	Fiscal Year 2014	Fiscal Year 2013	Dollar Change	Fiscal Year 2012	Dollar Change
<b>Assets:</b>					
Current and other assets	\$ 21,369,241	\$ 21,328,390	\$ 40,851	\$ 20,661,830	\$ 666,560
Capital assets	47,330,082	46,579,729	750,353	46,215,581	364,148
<b>Total Assets</b>	<b>68,699,323</b>	<b>67,908,119</b>	<b>791,204</b>	<b>66,877,411</b>	<b>1,030,708</b>
<b>Liabilities:</b>					
Current liabilities	1,320,901	1,163,931	156,970	820,907	343,024
Noncurrent liabilities	869,153	790,390	78,763	692,839	97,551
<b>Total Liabilities</b>	<b>2,190,054</b>	<b>1,954,321</b>	<b>235,733</b>	<b>1,513,746</b>	<b>440,575</b>
<b>Net Position:</b>					
Net investment in capital assets	47,330,082	46,579,729	750,353	46,215,581	364,148
Unrestricted	19,179,187	19,374,069	(194,882)	19,148,084	225,985
<b>Total Net Position</b>	<b>\$ 66,509,269</b>	<b>\$ 65,953,798</b>	<b>\$ 555,471</b>	<b>\$ 65,363,665</b>	<b>\$ 590,133</b>

See independent auditors' report.

**LAGUNA BEACH COUNTY WATER DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(CONTINUED)**

June 30, 2014 and 2013

**NET POSITION (CONTINUED)**

As can be seen from the Table 1, net position increased by \$555,471 from fiscal year 2013 to 2014. Looking more carefully at the table you can see that the change in net position was mainly related to the net investment in capital assets, which increased \$750,353 in fiscal year 2014. This increase reflects capital assets which were primarily financed from current cash flows during fiscal year 2014.

Unrestricted Net Position (those that can be used to finance day-to-day operations) decreased by \$194,882 due to recycled water and groundwater studies.

**Condensed Statements of Revenues,  
Expenses and Changes in Net Position**

	Fiscal Year 2014	Fiscal Year 2013	Dollar Change	Fiscal Year 2012	Dollar Change
<b>Revenues:</b>					
Operating revenues	\$ 9,216,801	\$ 8,816,247	\$ 400,554	\$ 8,129,780	\$ 686,467
Nonoperating revenues	3,346,571	3,131,475	215,096	3,175,129	(43,654)
<b>Total Revenues</b>	<b>12,563,372</b>	<b>11,947,722</b>	<b>615,650</b>	<b>11,304,909</b>	<b>642,813</b>
<b>Expenses:</b>					
Depreciation	1,947,840	1,829,961	117,879	1,737,643	92,318
Other operating expenses	10,060,061	9,527,628	532,433	8,973,958	553,670
<b>Total Expenses</b>	<b>12,007,901</b>	<b>11,357,589</b>	<b>650,312</b>	<b>10,711,601</b>	<b>645,988</b>
<b>Change in Net Position</b>	<b>555,471</b>	<b>590,133</b>	<b>(34,662)</b>	<b>593,308</b>	<b>(3,175)</b>
<b>Beginning Net Position</b>	<b>65,953,798</b>	<b>65,363,665</b>	<b>590,133</b>	<b>64,770,357</b>	<b>593,308</b>
<b>Ending Net Position</b>	<b>\$ 66,509,269</b>	<b>\$ 65,953,798</b>	<b>\$ 555,471</b>	<b>\$ 65,363,665</b>	<b>\$ 590,133</b>

See independent auditors' report.



LAGUNA BEACH COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)

June 30, 2014 and 2013

**NET POSITION (CONTINUED)**

A closer examination of the source of changes in net position reveals that the District's operating revenues increased by \$400,554 in fiscal year 2014 due to an increase in water sales and water rates, and refund of prior year expenses. In addition, nonoperating revenues increased by \$215,096 in fiscal year 2014 due to revised antennae site leases and increases property tax revenue. Operating costs (exclusive of depreciation) increased by \$532,433 in fiscal year 2014 due to increases in water purchased, water costs, labor and benefits, and write off of recycled water and groundwater studies.

**BUDGETARY HIGHLIGHTS**

**TABLE 3**  
Fiscal Year 2014 Actual vs. Fiscal Year 2014 Budget

	Fiscal Year 2014		
	Actual	Budget	Variance
<b>Revenues:</b>			
Operating revenues	\$ 9,216,801	\$ 8,623,960	\$ 592,841
Nonoperating revenues	3,346,571	3,196,910	149,661
<b>Total Revenues</b>	<b>12,563,372</b>	<b>11,820,870</b>	<b>742,502</b>
<b>Expenses:</b>			
<b>Operating Expenses:</b>			
Water purchased	3,755,965	3,589,760	(166,205)
Source of supply	108,275	168,060	59,785
Pumping	475,725	540,620	64,895
Transmission and distribution	2,339,639	2,324,100	(15,539)
Customer service	551,288	566,040	14,752
General and administrative	2,601,726	2,349,660	(252,066)
Other operation and maintenance	227,443	213,480	(13,963)
Depreciation	1,947,840	-	(1,947,840)
<b>Total Expenses</b>	<b>12,007,901</b>	<b>9,751,720</b>	<b>(2,256,181)</b>
<b>Change in Net Position</b>	<b>\$ 555,471</b>	<b>\$ 2,069,150</b>	<b>\$ (1,513,679)</b>

As Table 3 shows, the actual change in net position is \$1,513,679 less than the budgeted change in net position. The difference was primarily due to the fact that the District did not budget for depreciation.

See independent auditors' report.

**LAGUNA BEACH COUNTY WATER DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(CONTINUED)**

June 30, 2014 and 2013

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**CAPITAL ASSETS**

At the end of fiscal year 2014, the District had invested approximately \$86 million in a broad range of infrastructure as shown in Table 4.

**TABLE 4**  
**Capital Assets**

	Fiscal Year 2014	Fiscal Year 2013	Dollar Change	Fiscal Year 2012	Dollar Change
<b>Capital Assets:</b>					
Land and land rights	\$ 1,309,155	\$ 1,309,155	\$ -	\$ 1,309,155	\$ -
Source of supply plant	9,803,980	9,773,977	30,003	9,689,489	84,488
Pumping plant	6,481,665	5,452,395	1,029,270	5,432,833	19,562
Transmission and distribution system	56,882,697	55,681,556	1,201,141	53,925,332	1,756,224
General plant and equipment	9,786,709	9,260,836	525,873	8,523,860	736,976
Construction in progress	1,705,952	1,794,046	(88,094)	2,197,187	(403,141)
<b>Total Capital Assets</b>	<u>85,970,158</u>	<u>83,271,965</u>	<u>2,698,193</u>	<u>81,077,856</u>	<u>2,194,109</u>
<b>Less accumulated depreciation</b>	<u>(38,640,076)</u>	<u>(36,692,236)</u>	<u>(1,947,840)</u>	<u>(34,862,275)</u>	<u>(1,829,961)</u>
<b>Net Capital Assets</b>	<u>\$ 47,330,082</u>	<u>\$ 46,579,729</u>	<u>\$ 750,353</u>	<u>\$ 46,215,581</u>	<u>\$ 364,148</u>

The major capital asset additions for the fiscal year 2014 were one major pipeline replacement, valve and fire hydrant replacements, meter and service replacements, San Joaquin pump station improvements, vehicle replacement, and GIS information system.

Additional information on the District's capital assets can be found in Note 4 to the financial statements on pages 28 and 29 of this report.

**DEBT ADMINISTRATION**

At year-end, the District had no debt outstanding.

See independent auditors' report.

**LAGUNA BEACH COUNTY WATER DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(CONTINUED)**

June 30, 2014 and 2013

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The District's Board of Directors and management considered many factors when setting the fiscal year 2014 budget, user fees, and charges. The District tries to balance revenues with operating expenses that have increased due to factors such as the availability of water, cost-of-water, water quality requirements, staffing and benefits.

The poor economy continues to impact CALPERS plan assets value causing employers contribution rates to fluctuate. For fiscal year 2014, the District's contribution rate increased to 8.903% and the contribution rate for fiscal year 2015 is estimated to increase to 9.719%.

These indicators were taken into consideration when adopting the District's budget for fiscal year 2014. The budget has been structured to contain costs, but at the same time, continue the District's philosophy of providing the highest level of service.

**TABLE 5**  
**Fiscal Year 2014 Actual vs. Fiscal Year 2015 Budget**

	Fiscal Year 2014 Actual	Fiscal Year 2015 Budget	Variance
<b>Revenues:</b>			
Operating revenues	\$ 9,216,801	\$ 9,505,810	\$ 289,009
Nonoperating revenues	3,346,571	4,137,970	791,399
<b>Total Revenues</b>	<u>12,563,372</u>	<u>13,643,780</u>	<u>1,080,408</u>
<b>Expenses:</b>			
Depreciation	1,947,840	-	1,947,840
Other operating expenses	10,060,061	10,214,840	(154,779)
<b>Total Expenses</b>	<u>12,007,901</u>	<u>10,214,840</u>	<u>1,793,061</u>
<b>Change in Net Position</b>	555,471	3,448,940	2,873,469
<b>Beginning Net Position</b>	<u>65,953,798</u>	<u>66,509,269</u>	<u>555,471</u>
<b>Ending Net Position</b>	<u>\$ 66,509,269</u>	<u>\$ 69,958,209</u>	<u>\$ 3,428,940</u>

See independent auditors' report.

**LAGUNA BEACH COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)**

**June 30, 2014 and 2013**

**CONTACTING THE DISTRICT'S FINANCIAL MANAGER**

This financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Robert L. Westphal, Manager of Finance at Laguna Beach County Water District.

See independent auditors' report.

LAGUNA BEACH COUNTY WATER DISTRICT

STATEMENTS OF NET POSITION

June 30, 2014 and 2013

ASSETS	<u>2014</u>	<u>2013</u>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 3,986,120	\$ 6,837,495
Investments	6,831,637	5,359,431
Accounts receivable	1,974,201	1,732,721
Interest receivable	36,326	31,590
Taxes receivable	41,547	44,072
Notes receivable, current portion	7,971,902	21,616
Inventory	144,157	137,154
Prepaid expenses	120,805	126,692
Computer loans to employees	<u>10,625</u>	<u>13,796</u>
 TOTAL CURRENT ASSETS	 <u>21,117,320</u>	 <u>14,304,567</u>
<b>NONCURRENT ASSETS:</b>		
<b>CAPITAL ASSETS:</b>		
Capital assets, not being depreciated	3,015,107	3,103,201
Capital assets, being depreciated, net	<u>44,314,975</u>	<u>43,476,528</u>
 TOTAL CAPITAL ASSETS, NET	 47,330,082	 46,579,729
 <b>OTHER NONCURRENT ASSETS:</b>		
Notes receivable	<u>251,921</u>	<u>7,023,823</u>
 TOTAL NONCURRENT ASSETS	 <u>47,582,003</u>	 <u>53,603,552</u>
 TOTAL ASSETS	 <u>68,699,323</u>	 <u>67,908,119</u>

(Continued)

See independent auditors' report and notes to financial statements.

**LAGUNA BEACH COUNTY WATER DISTRICT**

**STATEMENTS OF NET POSITION  
(CONTINUED)**

**June 30, 2014 and 2013**

<b>LIABILITIES</b>	<u>2014</u>	<u>2013</u>
<b>LIABILITIES:</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 1,127,288	\$ 950,193
Accrued payroll and related costs	84,818	67,719
Water related deposits	2,075	2,200
Tenant deposit	4,200	4,200
Construction deposit	28,677	68,441
Accrued vacation, current portion	<u>73,843</u>	<u>71,178</u>
<b>TOTAL CURRENT LIABILITIES</b>	<u><b>1,320,901</b></u>	<u><b>1,163,931</b></u>
<b>NONCURRENT LIABILITIES:</b>		
Accrued vacation	221,528	213,533
Other post-employment benefits liability	<u>647,625</u>	<u>576,857</u>
<b>TOTAL NONCURRENT LIABILITIES</b>	<u><b>869,153</b></u>	<u><b>790,390</b></u>
<b>TOTAL LIABILITIES</b>	<u><b>2,190,054</b></u>	<u><b>1,954,321</b></u>
<b>NET POSITION:</b>		
Net investment in capital assets	47,330,082	46,579,729
Unrestricted	<u>19,179,187</u>	<u>19,374,069</u>
<b>TOTAL NET POSITION</b>	<u><b>\$ 66,509,269</b></u>	<u><b>\$ 65,953,798</b></u>

See independent auditors' report and notes to financial statements.

LAGUNA BEACH COUNTY WATER DISTRICT

STATEMENTS OF REVENUES, EXPENSES  
AND CHANGES IN NET POSITION

For the years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>OPERATING REVENUES:</b>		
Water sales	\$ 8,933,989	\$ 8,509,685
Fire service charges	10,596	10,446
Equipment rental	24,693	19,744
Overhead expense charged out	28,396	7,501
Penalties	57,312	59,826
Customer administration fees	9,765	10,860
Miscellaneous income	107,900	146,515
Reserve storage charges	44,150	51,670
<b>TOTAL OPERATING REVENUES</b>	<u><b>9,216,801</b></u>	<u><b>8,816,247</b></u>
<b>OPERATING EXPENSES:</b>		
Water purchased	3,755,965	3,293,938
Source of supply	108,275	115,203
Pumping	475,725	495,375
Transmission and distribution	2,339,639	2,427,296
Customer service	551,288	513,848
General and administrative	2,601,726	2,469,208
Other operation and maintenance	227,443	212,760
Depreciation	1,947,840	1,829,961
<b>TOTAL OPERATING EXPENSES</b>	<u><b>12,007,901</b></u>	<u><b>11,357,589</b></u>
<b>OPERATING LOSS</b>	<u><b>(2,791,100)</b></u>	<u><b>(2,541,342)</b></u>
<b>NONOPERATING REVENUES:</b>		
Interest income	614,757	587,258
Rental income	420,516	376,562
Property taxes	2,311,298	2,167,655
<b>TOTAL NONOPERATING REVENUES</b>	<u><b>3,346,571</b></u>	<u><b>3,131,475</b></u>
<b>CHANGES IN NET POSITION</b>	<b>555,471</b>	<b>590,133</b>
<b>NET POSITION - BEGINNING OF YEAR</b>	<u><b>65,953,798</b></u>	<u><b>65,363,665</b></u>
<b>NET POSITION - END OF YEAR</b>	<u><u><b>\$ 66,509,269</b></u></u>	<u><u><b>\$ 65,953,798</b></u></u>

See independent auditors' report and notes to financial statements.



**LAGUNA BEACH COUNTY WATER DISTRICT**

**STATEMENTS OF CASH FLOWS**

For the years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from customers	\$ 8,935,431	\$ 8,489,275
Payment to suppliers	(6,084,893)	(5,748,025)
Payment to employees	(3,697,490)	(3,413,539)
<b>NET CASH USED BY</b>		
<b>OPERATING ACTIVITIES</b>	<u>(846,952)</u>	<u>(672,289)</u>
 <b>CASH FLOWS FROM NONCAPITAL AND</b>		
<b>RELATED FINANCING ACTIVITIES:</b>		
Proceeds from taxes	<u>2,313,823</u>	<u>2,176,212</u>
 <b>CASH FLOWS FROM CAPITAL AND</b>		
<b>RELATED FINANCING ACTIVITIES:</b>		
Loan made to developer	(1,200,000)	-
Collections on notes receivable	21,616	21,335
Acquisition and construction of capital assets	(2,698,193)	(2,194,109)
<b>NET CASH USED BY CAPITAL AND</b>		
<b>RELATED FINANCING ACTIVITIES</b>	<u>(3,876,577)</u>	<u>(2,172,774)</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investment income	610,021	619,168
Rental income	420,516	376,562
(Purchase) sale of investments, net	(1,472,206)	4,596,547
<b>NET CASH PROVIDED (USED)</b>		
<b>BY INVESTING ACTIVITIES</b>	<u>(441,669)</u>	<u>5,592,277</u>
 <b>NET INCREASE (DECREASE) IN CASH</b>		
<b>AND CASH EQUIVALENTS</b>	(2,851,375)	4,923,426
 <b>CASH AND CASH EQUIVALENTS -</b>		
<b>BEGINNING OF YEAR</b>	<u>6,837,495</u>	<u>1,914,069</u>
 <b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 3,986,120</u>	<u>\$ 6,837,495</u>

See independent auditors' report and notes to financial statements.

(Continued)

LAGUNA BEACH COUNTY WATER DISTRICT

STATEMENTS OF CASH FLOWS  
(CONTINUED)

For the years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	\$ (2,791,100)	\$ (2,541,342)
Depreciation	1,947,840	1,829,961
Change in assets and liabilities:		
(Increase) decrease in receivables - customer accounts	(241,480)	(348,364)
(Increase) decrease in inventory	(7,003)	(23,463)
(Increase) decrease in prepaid expenses and other assets	9,058	(29,656)
Increase (decrease) in accounts payable	177,095	253,596
Increase (decrease) in accrued liabilities	27,759	69,404
Increase (decrease) in other post-employment benefits liability	70,768	96,183
Increase (decrease) in deposits	<u>(39,889)</u>	<u>21,392</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (846,952)</u>	<u>\$ (672,289)</u>

See independent auditors' report and notes to financial statements.

# LAGUNA BEACH COUNTY WATER DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

### 1. DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

#### a. Reporting Entity:

The Laguna Beach County Water District (the District) was incorporated in 1925, under the County Water District Act of the State Water Code, and is the second oldest operating district of its type in California. The District is governed by the publicly-elected Laguna Beach City Council members, serving as the District's Board of Directors. In 1943, the District joined the Metropolitan Water District of Southern California to import water from Northern California and the Colorado River. The local supply is currently a blend of these two water sources delivered to customers through more than 134 miles of its local transmission and distribution mains.

The District currently serves an area of approximately nine square miles, providing water for municipal and industrial purposes. The 8,047 metered customer services are largely residential and commercial. On January 1, 2004, Emerald Bay Services District was deannexed from the District's service area. This represents approximately 550 customers or 6% of the services served by the District, and accounts for approximately 288 acre feet water provided by the District. The District continues to provide water service and administrative support through an agreement with Emerald Bay Services District.

The District has no production wells. However, it does own one inactive irrigation well in Sycamore Hills, one well site in Fountain Valley, and three well sites in Huntington Beach. The supply source is 100% imported from the Colorado River and State Water Project. The supply lines and control facilities are managed by the District, which also serves water to four neighboring water purveyors.

A network of 21 storage reservoirs, with a total storage capacity of 33.5 million gallons, are placed in five strategic pressure zones to provide regulation, emergency, and peak storage.

#### b. Change in Organization:

On June 29, 1997, the Board of Directors adopted Resolution No. 564. This Resolution was directed toward an application submitted to the Local Agency Formation Commission of the County of Orange, California (LAFCO) for a change in organization, pursuant to the California Government Code. On September 2, 1998, LAFCO approved the District's application to become a subsidiary district of the City of Laguna Beach, which became effective November 1, 2000.

See independent auditors' report.

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2014 and 2013

1. DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

b. Change in Organization (Continued):

In determining the agencies or entities which comprise a governmental entity for financial reporting purposes, the criteria of oversight responsibility over such agencies or entities, special financial relationships, and scope of public service provided by the agencies or entities are used. Oversight responsibility is determined by the extent of financial interdependency, control over the selection of the governing authority and management, ability to significantly influence operations, and accountability for fiscal matters. Based on these criteria, the District is considered to be a component unit of the City of Laguna Beach and all accounts and transactions of the District will be reported in the financial statements of the City. These financial statements, however, are presented for the District only.

c. Water Rights:

In June 1933, the Superior Court of Orange County entered a judgment decreeing the District's annual right to extract and export 2,025 acre-feet of water from the Santa Ana River Coastal Basin. The District is presently working to resume the exercise of its right to produce and export that water to serve the customers of the District.

d. Method of Accounting:

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. Revenues and expenses are recognized on the accrual basis. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flow takes place.

Operating revenues, such as charges for services (water sales) result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as property taxes, and investment income, result from nonexchange transactions or ancillary activities in which the District gives (receives) value without directly receiving (giving) equal value in exchange.

When both restricted and unrestricted resources are available, it is the District's policy to use unrestricted resources first, and then restricted resources as they are needed. As of June 30, 2014, the District had no restricted resources.

See independent auditors' report.

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2014 and 2013

1. DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

d. Method of Accounting (Continued):

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

Net Investment in Capital Assets

This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of notes or borrowings that are attributable to the acquisition of the asset, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. The District has no debt attributable to capital assets.

Restricted Net Position

This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. The District has no restrictions on net position.

Unrestricted Net Position

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

e. New GASB Accounting Pronouncements:

**Current Year Standards:**

GASB 66 "*Technical Corrections, an amendment of GASB Statement No. 10 and Statement No. 62*", required to be implemented in the current fiscal year did not impact the District.

GASB 70 - "*Accounting and Financial Reporting for Nonexchange Financial Guarantees*", required to be implemented in the current fiscal year did not impact the District.

See independent auditors' report.

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2014 and 2013

1. DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

e. New GASB Accounting Pronouncements (Continued):

**GASB Pending Accounting Standards:**

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

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

f. Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District does not have any applicable deferred outflows of resources.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The District does not have any applicable deferred inflows of resources.

g. Investments:

The District has stated investments at fair value, which is the value at which a financial instrument could be exchanged in a current transaction between willing parties other than forced or liquidation sales.

See independent auditors' report.

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2014 and 2013

I. DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

h. Cash and Cash Equivalents:

For the purposes of the statement of cash flows and carrying value purposes, the District considers all highly liquid debt instruments purchased with maturity of three months or less to be cash equivalents.

i. Accounts Receivable:

The District extends credit to customers in the normal course of operations. Management has evaluated the accounts and believes they are all collectible. Management evaluates all accounts receivable and, if it is determined that they are uncollectible, they are written off as bad debt expense. A charge of \$10,567 and \$15,754 was made to bad debt expense for the fiscal years ended June 30, 2014 and 2013, respectively.

j. Inventory:

Material inventory is valued at cost, using the weighted average method.

k. Capital Assets:

Capital assets are stated at historical cost or at fair market value in the case of properties acquired by contribution. Such costs include material, labor, engineering, supervision, payroll taxes and employee benefits. District policy has set the capitalization threshold for reporting capital assets at \$2,000. Expenditures for routine maintenance and repairs are charged to expense as incurred. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets.

Estimated useful lives of the assets for financial reporting purposes are:

Autos and trucks	4 - 10 years
Office furniture and equipment	10 years
Pumping plant	20 years
Meters and services	20 years
Source of supply	10 - 50 years
Transmission mains	20 - 50 years
Reservoirs and tanks	50 - 100 years

See independent auditors' report.



LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2014 and 2013

1. DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

l. Property Taxes:

Property taxes in California are levied in accordance with Article XIII A of the State Constitution at 1% of countywide assessed valuations. This levy is allocated pursuant to state law to the appropriate units of local government.

The property tax calendar is as follows:

Lien date:	January 1
Levy date:	July 1
Due date:	First installment - November 11 Second installment - February 11
Delinquent date:	First installment - December 12 Second installment - April 9

Taxes are collected by the County of Orange and are remitted to the District periodically according to the following schedule (dates and percentages may vary slightly from year to year):

November 6	7%
November 27	13%
December 18	34%
January 15	2%
March 12	5%
April 23	36%
May 21	2%
July 16	1%

m. Estimates:

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the statement of net position date, and reported amounts of revenues and expenses during the reporting period. Estimates are used to determine depreciation expense, the allowance for doubtful account and certain liabilities. Actual results may differ from those estimates.

See independent auditors' report.

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2014 and 2013

2. CASH AND INVESTMENTS:

Cash and Investments

Cash and investments reported in the statements of net position are as follows:

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Cash and cash equivalents	\$ 3,986,120	\$ 6,837,495
Investments	6,831,637	5,359,431
Total cash and investments	\$ 10,817,757	\$ 12,196,926

Cash and investments consisted of the following:

Cash on hand	\$ 500	\$ 500
Deposits with financial institutions	74,476	732,567
Investments	10,742,781	11,463,859
Total cash and investments	\$ 10,817,757	\$ 12,196,926

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

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment in One Issuer</u>
United States Treasury Obligations	5 years	100%	None
United States Government Sponsored Agency Securities	5 years	100%	None
Banker's Acceptances Notes	180 days	40%	30%
Negotiable Certificates of Deposit	5 years	30%	None
Certificates of Deposit	5 years	100%	None
Commercial Paper	270 days	25%	10%
Medium-Term Corporate Notes	5 years	30%	None
Money Market Mutual Funds	N/A	20%	None
Municipal Notes or Bonds	5 years	20%	\$ 500,000
Local Agency Investment Fund (LAIF)	N/A	100%	\$ 50,000,000

As of June 30, 2014, the District's investments included only municipal bonds of local agencies located in the State of California.

N/A- Not Applicable

See independent auditors' report.

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2014 and 2013

2. CASH AND INVESTMENTS (CONTINUED):

Disclosures Relating to Interest Rate Risk

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

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity:

June 30, 2014

<u>Investment Type</u>	<u>Remaining Maturity (in Months)</u>			<u>Total</u>
	<u>12 Months or Less</u>	<u>13 - 24 Months</u>	<u>25 - 60 Months</u>	
United States Government Sponsored				
Agency Securities	\$ -	\$ -	\$ 1,249,280	\$ 1,249,280
Negotiable Certificates of Deposit	200,239	102,802	2,338,100	2,641,141
Certificates of Deposit	298,000	-	100,000	398,000
Medium-Term Corporate Notes	-	259,660	961,283	1,220,943
Municipal Notes or Bonds	355,536	102,280	864,457	1,322,273
Local Agency Investment Fund	<u>3,911,144</u>	<u>-</u>	<u>-</u>	<u>3,911,144</u>
	<u>\$ 4,764,919</u>	<u>\$ 464,742</u>	<u>\$ 5,513,120</u>	<u>\$ 10,742,781</u>

June 30, 2013

<u>Investment Type</u>	<u>Remaining Maturity (in Months)</u>			<u>Total</u>
	<u>12 Months or Less</u>	<u>13 - 24 Months</u>	<u>25 - 60 Months</u>	
United States Government Sponsored				
Agency Securities	\$ -	\$ -	\$ 248,213	\$ 248,213
Negotiable Certificates of Deposit	-	203,395	2,135,798	2,339,193
Certificates of Deposit	300,000	298,000	100,000	698,000
Medium-Term Corporate Notes	401,443	-	509,237	910,680
Municipal Notes or Bonds	145,244	360,890	661,758	1,167,892
Local Agency Investment Fund	<u>6,099,881</u>	<u>-</u>	<u>-</u>	<u>6,099,881</u>
	<u>\$ 6,946,568</u>	<u>\$ 862,285</u>	<u>\$ 3,655,006</u>	<u>\$ 11,463,859</u>

See independent auditors' report.

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2014 and 2013

2. CASH AND INVESTMENTS (CONTINUED):

Disclosures Relating to Credit Risk

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

June 30, 2014

Investment Type	Total	Minimum Legal Rating	Not Required to be			
			AA+	Other	Unrated	Rated
United States Government Sponsored						
Agency Securities	\$ 1,249,280	N/A	\$ 1,249,280	\$ -	\$ -	\$ -
Negotiable Certificates of Deposit	2,641,141	N/A	-	-	2,641,141	-
Certificates of Deposit	398,000	N/A	-	-	-	398,000
Medium-term Corporate Notes (MTN)	1,220,943	A	-	1,220,943	-	-
Municipal Notes or Bonds (MNB)	1,322,273	A	451,705	870,568	-	-
Local Agency Investment Funds	3,911,144	N/A	-	-	3,911,144	-
Total	<u>\$ 10,742,781</u>		<u>\$ 1,700,985</u>	<u>\$ 2,091,511</u>	<u>\$ 6,552,285</u>	<u>\$ 398,000</u>

N/A - Not Applicable

The actual ratings for the Medium-Term Corporate Notes (MTN) and Municipal Notes or Bonds (MNB) are as follows:

Other:	<u>MTN</u>	<u>MNB</u>
AA-	\$ 253,183	\$ 306,573
Aa3 (Moody's Credit Rating)	-	104,467
A+	-	356,076
A	586,868	103,452
A-	<u>380,892</u>	<u>-</u>
	<u>\$1,220,943</u>	<u>\$ 870,568</u>

See independent auditors' report.

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2014 and 2013

2. CASH AND INVESTMENTS (CONTINUED):

Disclosures Relating to Credit Risk (Continued)

June 30, 2013

Investment Type	Total	Minimum Legal Rating	AA-	Other	Unrated	Not Required to be Rated
United States Government Sponsored						
Agency Securities	\$ 248,213	N/A	\$ 248,213	\$ -	\$ -	\$ -
Negotiable Certificates of Deposit	2,339,193	N/A	-	-	2,339,193	-
Certificates of Deposit	698,000	N/A	-	-	-	698,000
Medium-term Corporate Notes (MTN)	910,680	A	-	910,680	-	-
Municipal Notes or Bonds (MNB)	1,167,892	A	150,576	1,017,316	-	-
Local Agency Investment Funds	<u>6,099,881</u>	N/A	-	-	<u>6,099,881</u>	-
Total	<u>\$ 11,463,859</u>		<u>\$ 398,789</u>	<u>\$ 1,927,996</u>	<u>\$ 8,439,074</u>	<u>\$ 698,000</u>

N/A - Not Applicable

The actual ratings for the Medium-Term Corporate Notes (MTN) and Municipal Notes or Bonds (MNB) are as follows:

Other:	<u>MTN</u>	<u>MNB</u>
AA-	\$ -	\$ 154,706
Aa3 (Moody's Credit Rating)	-	105,300
A+	-	506,928
A	360,325	250,382
A-	<u>550,355</u>	<u>-</u>
	<u>\$ 910,680</u>	<u>\$1,017,316</u>

See independent auditors' report.

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2014 and 2013

2. CASH AND INVESTMENTS (CONTINUED):

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. At June 30, 2014, there were no investments in any one issuer that represented 5% or more of total District's investments.

Custodial Credit Risk

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

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

See independent auditors' report.

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2014 and 2013

3. NOTES RECEIVABLE:

Related Party Notes Receivable

On April 23, 2002, the Board of Directors approved a loan to the District's general manager for purchase of a residence, the location of which is restricted within the parameters listed in the agreement. The loan was funded on August 15, 2002. The loan is payable in biweekly payments, beginning on the 1<sup>st</sup> day of October 2002 and amortized over a period of 25 years. Interest rate is variable and is payable biweekly at rates of 0.25% over Local Agency Investment Fund (LAIF) rate with a cap rate of 7%. The loan is secured by a deed of trust on the residence. At June 30, 2014, the outstanding balance on the note was \$273,823.

The following is a schedule of principal and interest payments due on the related party notes receivable:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 21,902	\$ 4,015	\$ 25,917
2016	22,191	3,726	25,917
2017	22,485	3,432	25,917
2018	22,782	3,135	25,917
2019	23,085	2,832	25,917
2020 - 2024	121,112	9,471	130,583
2025 - 2026	40,266	1,332	41,866
	<u>\$ 273,823</u>	<u>\$ 27,943</u>	<u>\$ 302,034</u>

Promissory Notes Receivable

On January 28, 2005, the District sold the property that was formerly occupied by K-Mart. As part of the sale, the District received a promissory note in the amount \$6,750,000. The note is secured by a deed of trust on the property. The note calls for monthly interest payments, computed at a rate ranging from 6% to 7%, for the first ten years. On the first day of the first calendar month following the tenth year, the note calls for monthly payments equal to the amount required to fully amortize the principal balance over a twenty-five year period at an interest rate of 7.25%. Starting on the first day of the first calendar month following the fifteenth year, the note calls for monthly payments equal to the amount required to fully amortize principal balance over a twenty-five year period at an interest rate of 7.50%. At the end of the twenty-fifth year, the remaining principal and any accrued interest are due.

See independent auditors' report.



LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2014 and 2013

3. NOTES RECEIVABLE (CONTINUED):

Promissory Notes Receivable (Continued)

The District modified the terms of the note dated January 28, 2005 with a modification agreement dated June 24, 2009. Under the modified agreement, the interest rate for the period July 1, 2009 through June 30, 2014 was reduced to 5.75%, resulting in deferred interest of \$275,625. The deferred interest is to be repaid in monthly amounts of \$3,445 commencing July 1, 2013 for 80 months. Under the modification, the time during which the borrower may make interest only payments under the note was extended from the first day of the first calendar month following the tenth anniversary of the recording date to February 1, 2017. At June 30, 2014, the outstanding balance on the note was \$6,750,000.

On July 15, 2013, the District loaned an additional \$1,200,000 to the owners of the property that the District had sold in 2005. The note is secured by a deed of trust on the property. The note calls for monthly interest payments, computed at a rate of 4.00%. Principal and any accrued unpaid interest is due two years from the date that the trust deed is recorded.

On September 26, 2014, the District received payment in full on both promissory notes including deferred interest, unpaid accrued interest and a prepayment penalty on the 2005 note.

See independent auditors' report.

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2014 and 2013

4. CAPITAL ASSETS:

The following is a summary of changes in capital assets at June 30, 2014.

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2014</u>
Capital assets, not being depreciated:				
Land and land rights	\$ 1,309,155	\$ -	\$ -	\$ 1,309,155
Construction in progress	<u>1,794,046</u>	<u>615,232</u>	<u>(703,326)</u>	<u>1,705,952</u>
Total capital assets, not being depreciated	<u>3,103,201</u>	<u>615,232</u>	<u>(703,326)</u>	<u>3,015,107</u>
Capital assets, being depreciated:				
Source of supply plant	9,773,977	30,003	-	9,803,980
Pumping plant	5,452,395	1,029,270	-	6,481,665
Transmission and distribution system	55,681,556	1,201,141	-	56,882,697
General plant and equipment	<u>9,260,836</u>	<u>525,873</u>	<u>-</u>	<u>9,786,709</u>
Total capital assets being depreciated	<u>80,168,764</u>	<u>2,786,287</u>	<u>-</u>	<u>82,955,051</u>
Less accumulated depreciation:				
Source of supply plant	(5,063,396)	(229,762)	-	(5,293,158)
Pumping plant	(4,178,330)	(255,197)	-	(4,433,527)
Transmission and distribution system	(19,725,654)	(1,148,339)	-	(20,873,993)
General plant and equipment	<u>(7,724,856)</u>	<u>(314,542)</u>	<u>-</u>	<u>(8,039,398)</u>
Total accumulated depreciation	<u>(36,692,236)</u>	<u>(1,947,840)</u>	<u>-</u>	<u>(38,640,076)</u>
Total capital assets being depreciated, net	<u>43,476,528</u>	<u>838,447</u>	<u>-</u>	<u>44,314,975</u>
Total capital assets, net	<u>\$ 46,579,729</u>	<u>\$ 1,453,679</u>	<u>\$ (703,326)</u>	<u>\$ 47,330,082</u>

See independent auditors' report.

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2014 and 2013

4. CAPITAL ASSETS (CONTINUED):

The following is a summary of changes in capital assets at June 30, 2013.

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2013</u>
Capital assets, not being depreciated:				
Land and land rights	\$ 1,309,155	\$ -	\$ -	\$ 1,309,155
Construction in progress	<u>2,197,187</u>	<u>895,456</u>	<u>(1,298,597)</u>	<u>1,794,046</u>
<b>Total capital assets, not being depreciated</b>	<u>3,506,342</u>	<u>895,456</u>	<u>(1,298,597)</u>	<u>3,103,201</u>
Capital assets, being depreciated:				
Source of supply plant	9,689,489	84,488	-	9,773,977
Pumping plant	5,432,833	19,562	-	5,452,395
Transmission and distribution system	53,925,332	1,756,224	-	55,681,556
General plant and equipment	<u>8,523,860</u>	<u>736,976</u>	<u>-</u>	<u>9,260,836</u>
<b>Total capital assets being depreciated</b>	<u>77,571,514</u>	<u>2,597,250</u>	<u>-</u>	<u>80,168,764</u>
Less accumulated depreciation:				
Source of supply plant	(4,833,168)	(230,228)	-	(5,063,396)
Pumping plant	(3,973,842)	(204,488)	-	(4,178,330)
Transmission and distribution system	(18,608,582)	(1,117,072)	-	(19,725,654)
General plant and equipment	<u>(7,446,683)</u>	<u>(278,173)</u>	<u>-</u>	<u>(7,724,856)</u>
<b>Total accumulated depreciation</b>	<u>(34,862,275)</u>	<u>(1,829,961)</u>	<u>-</u>	<u>(36,692,236)</u>
<b>Total capital assets being depreciated, net</b>	<u>42,709,239</u>	<u>767,289</u>	<u>-</u>	<u>43,476,528</u>
<b>Total capital assets, net</b>	<u>\$ 46,215,581</u>	<u>\$ 1,662,745</u>	<u>\$ (1,298,597)</u>	<u>\$ 46,579,729</u>

See independent auditors' report.

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2014 and 2013

5. COMPUTER LOANS TO EMPLOYEES:

In March 1999, the District started the Employee Personal Computer Purchase Plan to encourage computer literacy of full-time District employees through the purchase and use of personal computers and software. Any full-time employee in good standing who has completed the probationary period and agrees to the provisions of the plan is eligible for a maximum 24-month noninterest loan of \$2,000. The District has allocated a limit of \$50,000 for this program. As of June 30, 2014 and 2013, there were ten participants in the plan. Outstanding balances as of June 30, 2014 and 2013 are \$10,625 and \$13,796, respectively.

6. COMPENSATED ABSENCES:

In accordance with Governmental Accounting Standards Board Codification C60.110, "Accounting for Compensated Absences" requirements, the District has accrued the potential liability for accrued vacation pay totaling \$295,371 and \$284,711 as of June 30, 2014 and 2013, respectively. Employees earn vacation and sick leave each month at various rates depending on length of service. Sick leave can be accumulated and rolled over into the retirement plan (see Note 7). The CalPERS system includes an estimate for this amount in its actuarial calculations. There is no material amount of sick leave accrued that is not provided for by the CalPERS calculation, therefore, no sick leave amount has been accrued in the District's financial statements.

7. EMPLOYEE'S RETIREMENT PLANS:

a. Plan Descriptions:

The District participates in the Miscellaneous 2% at 55 Risk Pool and the Miscellaneous 2% at 62 Risk Pool of the California Public Employee's Retirement System (CalPERS), a cost-sharing, multiple-employer defined benefit pension plan administered by CalPERS. The Miscellaneous 2% at 62 Risk Pool was created by California Employees' Pension Reform Act (PEPRA) as of January 1, 2013 and is open to all new employees who do not qualify for the Miscellaneous 2% at 55 Risk Pool. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions and all other requirements are established by State statute and District ordinance. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office - 400 P Street, Sacramento, California 95814.

See independent auditors' report.

# LAGUNA BEACH COUNTY WATER DISTRICT

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2014 and 2013

### 7. EMPLOYEE'S RETIREMENT PLANS (CONTINUED):

#### a. Funding Policy:

The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS. Active District employees in the Miscellaneous 2% at 55 Risk Pool are required to contribute 7% of their annual salary to CalPERS, of which the District paid 5%. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The current rate is 8.903% of covered payroll. Active plan members of Miscellaneous 2% at 62 Risk Pool are required to contribute 6.25% of their annual covered salary. The required employer contribution rate of the fiscal year ended June 30, 2014 for the Miscellaneous 2% at 62 Risk Pool was 6.25%. PEPRRA does not allow the District to pay any portion of the employee required contribution on behalf of the employee. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members under PEPRRA provisions. The District's contributions to CalPERS for the years ended June 30, 2014, 2013 and 2012 were \$581,135, \$517,805 and \$491,720, respectively and were equal to the required contribution for each year.

### 8. OTHER POST-EMPLOYMENT BENEFITS (OPEB):

#### a. Plan Description:

The District, through a single employer defined benefit plan, provides post-employment health care benefits. Specifically, the District provides health insurance for its retired employees and their dependent spouses (if married and covered on the District's plan at time of retirement). Medical coverage is provided for retired employees who are in the age range of between 60 and 64 and who have served the District on a full-time basis for ten continuous years. The employee must have participated in the District's CalPERS plan during their tenure with the District. The employee must have applied for and be receiving service retirement benefits pursuant to the terms and conditions of the District's CalPERS plan. The District pays 100% of the plan premium for retiree coverage from the date of retirement until the date the retired employee becomes eligible to receive Medicare benefits. Coverage for retired employee's spouse under the health insurance plan is at the sole cost of the employee. District's obligation to provide benefits ceases upon death of retiree or medicare eligibility, whichever is earlier. The plan does not provide a publicly available financial report.

See independent auditors' report.

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2014 and 2013

8. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONTINUED):

b. Funding Policy:

The contribution requirements of plan members and the District are established and may be amended by the District, District's Board of Directors, and/or the employee associations. Currently, contributions are not required from plan members. The District is currently funding this OPEB obligation on a pay-as-you-go basis. For the year ended June 30, 2014, the District had three eligible retired employees.

c. Annual OPEB Cost and Net OPEB Obligation:

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC). The District has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded liabilities of the plan over a period not to exceed thirty years.

The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the Retiree Health Plan:

Annual required contribution	\$	112,713
Interest on net OPEB obligation		22,536
Adjustment to ARC		<u>(46,637)</u>
Annual OPEB cost (Expense)		88,612
Actual contributions made		<u>(17,844)</u>
Increase in net OPEB obligation		70,768
Net OPEB Obligation - beginning of year		<u>576,857</u>
Net OPEB Obligation - end of year	\$	<u><u>647,625</u></u>

See independent auditors' report.

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2014 and 2013

8. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONTINUED):

d. Funded Status and Funding Progress (Continued):

The District's annual OPEB cost, the percentage of annual OPEB costs contributed to the plan, and the net OPEB obligation for the year ended June 30, 2014, the fifth year in which GASB Statement 45 is required to be implemented, were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>% of Annual OPEB Costs Contributed</u>	<u>Net OPEB Obligation</u>
6/30/10	\$ 165,530	0%	\$ 165,530
6/30/11	165,530	0%	331,060
6/30/12	165,530	9.62%	480,674
6/30/13	112,713	14.66%	576,857
6/30/14	70,768	20.14%	647,625

As of July 1, 2012, the second, most recent, actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$860,224, and the actuarial value of assets was zero, resulting in an unfunded accrued liability (UAL) of \$860,224. The covered payroll (annual payroll of active employees covered by the plan) was \$3,479,088 and the ratio of the UAL to the covered payroll was 24.7%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about rates of employee turnover, retirement, mortality, as well as economic assumptions regarding claim costs per retiree, healthcare inflation and interest rates. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

See independent auditors' report.



LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2014 and 2013

8. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONTINUED):

e. Actuarial Methods and Assumptions:

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The 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, 2012 actuarial investment valuation, the projected unit credit method was used. The actuarial assumptions included a 5% investment rate of return and the District's share of health care trend rates will increase at a rate of 8% for the year 2012, 7% for the year 2013, 6% for the year 2014, and 5% for the years 2015 and thereafter. The District's unfunded actuarial accrued liability will be amortized over thirty years.

9. UNRESTRICTED NET ASSETS:

Amounts shown as unrestricted net assets have been reserved by Board action to be used for specified purposes as listed below:

	2014	2013
Operating reserve fund	\$ 930,000	\$ 930,000
Self insurance/emergency reserve fund	3,895,800	3,895,800
Rate stabilization reserve fund	330,000	330,000
Reservoir replacement fund	4,500,000	4,500,000
Employee liabilities	525,000	525,000
Capital replacement	8,738,387	8,993,269
Water supply reliability	260,000	200,000
Totals	\$ 19,179,187	\$ 19,374,069

10. RISK MANAGEMENT:

The District is a member of the Association of California Water Agencies Joint Powers Insurance Authority (Insurance Authority). The Insurance Authority is a risk-pooling self-insurance authority, created under provisions of California Government Code Sections 6500 et. seq. The purpose of the Authority is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage.

At June 30, 2014, the District participated in the self-insurance programs of the Insurance Authority as follows:

See independent auditors' report.

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2014 and 2013

10. RISK MANAGEMENT (CONTINUED):

Property Loss - The Insurance Authority has pooled self-insurance up to \$100,000 per occurrence and has purchased excess insurance coverage up to \$100,000,000 (total insurable value of \$14,178,521). The District has a \$2,500 deductible for buildings, personal property, fixed and mobile equipment and a \$2,500 deductible for licensed vehicles.

General Liability - The District is insured up to \$60,000,000 with no deductible. The Insurance Authority has pooled self-insurance up to \$2,000,000 per occurrence and has purchased excess insurance coverage up to \$60,000,000.

Auto Liability - The District is insured up to \$60,000,000 with no deductible. The Insurance Authority has pooled self-insurance up to \$2,000,000 per occurrence and has purchased excess insurance coverage up to \$60,000,000.

Public Officials' Liability - The District has coverage for errors and omissions for up to \$60,000,000. The Insurance Authority has pooled self-insurance up to \$2,000,000 per occurrence and has purchased excess insurance coverage up to \$60,000,000.

Crime Bond - The Insurance Authority has pooled self-insurance up to \$100,000 per occurrence. The District has a \$1,000 deductible.

Workers' Compensation - Employer's liability is insured up to a \$4,000,000 limit. The Insurance Authority has pooled self-insurance up to \$2,000,000 and has purchased excess insurance coverage up to \$2,000,000.

Underground Storage Tank Pollution Liability - The District is insured up to \$3,500,000 with a \$10,000 deductible, per environmental incident; the Authority is self-insured up to \$500,000 and excess insurance coverage has been purchased to cover losses ranging from \$500,000 to \$3,000,000.

The District pays annual premiums for the coverages. There were no instances in the past three years when a settlement exceeded the District's coverage.

11. OPERATING LEASES:

As of June 30, 2014, the District has operating leases with various communication companies to rent space on District occupied property. The operating leases are on a month-to-month basis with the District receiving monthly lease payments of approximately \$33,000.

12. SUBSEQUENT EVENTS:

Events occurring after June 30, 2014 have been evaluated for possible adjustments to the financial statements or disclosure as of December 9, 2014, which is the date these financial statements were available to be issued.

See independent auditors' report.

**REQUIRED SUPPLEMENTARY INFORMATION**

**OTHER POST-EMPLOYMENT BENEFIT PLAN  
SCHEDULE OF FUNDING PROGRESS**

**LAGUNA BEACH COUNTY WATER DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**

For the year ended June 30, 2014

**OTHER POST-EMPLOYMENT BENEFIT PLAN**  
**SCHEDULE OF FUNDING PROGRESS**

**Retiree Health Plan**

Actuarial Valuation Date	Actuarial Accrued Liability (AAL) (a)	Actuarial Value of Assets (AVA) (b)	Unfunded Actuarial Accrued Liability (UAAL) (a) - (b)	Funded Ratio (b)/(a)	Annual Covered Payroll (c)	UAAL as a Percentage of Payroll [(a)-(b)]/(c)
07/01/09	\$ 995,637	\$ -	\$ 995,637	0.00%	\$ 2,962,352	33.61%
07/01/12	\$ 860,224	\$ -	\$ 860,224	0.00%	\$ 3,479,088	24.73%

See independent auditors' report.

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

The Board of Directors  
Laguna Beach County Water District  
Laguna Beach, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Laguna Beach County Water District (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 9, 2014.

**Internal Control over Financial Reporting**

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

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

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

## Compliance and Other Matters

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

## Purpose of this Report

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

*White Nelson Dick Evans LLP*

Irvine, California  
December 9, 2014

JAN 09 2015  
AUDITOR-CONTROLLER

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