

YORBA LINDA WATER DISTRICT  
of Yorba Linda, California

# **Comprehensive Annual Financial Report**

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WITH REPORT ON AUDIT BY  
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

*For the Fiscal Year Ending June 30, 2014*

*Prepared by:*

*The Yorba Linda Water District Finance Department*

*Delia Lugo, Finance Manager  
Kelly McCann, Senior Accountant  
Maria Trujillo, Accounting Assistant II  
Richard Cabadas, Accounting Assistant I*

*and*

*Cindy Botts, Management Analyst*

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YORBA LINDA WATER DISTRICT

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## **INTRODUCTORY SECTION**

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September 12, 2014

Members of the Board of Directors  
Yorba Linda Water District

### **Introduction**

It is our pleasure to submit Yorba Linda Water District's Comprehensive Annual Financial Report (CAFR) for the fiscal year ending June 30, 2014. This report was prepared pursuant to the guidelines set forth by the Governmental Accounting Standards Board (GASB).

District staff prepared this financial report in conjunction with an unqualified opinion issued by the independent audit firm White, Nelson, Diehl, Evans LLP. The independent auditor's report is located at the front of the financial section of this document. Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

This report consists of management's representations concerning the finances of Yorba Linda Water District. Consequently, management assumes full responsibility for the completeness and reliability of the information presented in this report. To provide a reasonable basis for making these representations, the District has established a comprehensive internal control framework that is designed both to protect the District's assets from loss, theft or misuse, and to compile sufficient reliable information for the preparation of the District's financial statements in conformity with Generally Accepted Accounting Principles (GAAP). Because the cost of internal control should not outweigh its benefits, the District's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements will be free from material misstatement. Management asserts that to the best of our knowledge and belief this financial report is complete and reliable in all material aspects.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Yorba Linda Water District for its comprehensive annual financial report for the fiscal year ended June 30, 2013. In order to be awarded a Certificate of Achievement, a governmental entity must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program requirements and we are submitting it to the GFOA to determine its eligibility for certificate again this year.

### **District Structure and Leadership**

The Yorba Linda Water District is an independent special district, which operates under the authority of Division 12 of the California Water Code. The Yorba Linda Water District has provided water and sewer services to the residents of the City of Yorba Linda, portions of Placentia, Brea, Anaheim, and nearby unincorporated areas since 1959, the year it was formed to take over the assets and water service responsibilities of the Yorba Linda Water Company, a mutual formed in 1909. The District is governed by a five-member Board of Directors, elected at large from within the District's service area. The General Manager administers the day-to-day operations of the District in accordance with policies and procedures established by the Board of Directors. The Yorba Linda Water District employs a full-time staff of 77 employees. The District's Board of Directors meets on the second and fourth Thursday of each month. Meetings are publicly noticed and citizens are encouraged to attend.

The District provides water, sewer or a combination of both services to residents and businesses within its service area, which includes approximately 14,475 acres of land comprising 22.6 square miles. The District serves a population of approximately 72,000 and currently provides water service through approximately 24,554 residential, commercial, and light industrial connections.

### **District Services**

Residential customers make up approximately 92% of the District's customer base and consume approximately 72% of the water provided annually by the District. The District obtains about half of its water supply from the Metropolitan Water District (MWD) through the Municipal Water District of Orange County (MWDOC) and the other half from groundwater wells within the area. In FY 2013/14 the District provided 22,614 acre-feet of water to its customers.

The District's service area is known for having larger than average residential lots and a network of horse trails spanning over 100 miles in length. In *CNN Money's* "Best Places to Live for 2012", Yorba Linda was one of four Southern California cities listed. Similarly, the City of Yorba Linda's median income is 48% greater than the overall median income for Orange County, as reported by 2010 Census data.

## **Economic Condition and Outlook**

The District's administrative offices are located in the City of Placentia in Orange County. The economic outlook for the area shows moderate growth, which is projected to continue with new commercial business and a steadily improving housing market.

District expenses have increased approximately \$900,000 per year over the past four fiscal years, with the fiscal year 2014/15 budget expected to increase an additional \$1,000,000. A primary factor of the increase in these expenses is the cost of water YLWD pays to the Municipal Water District of Orange County (MWDOC) for import water and assessments. MWDOC's cost is primarily based on the cost of water they must pay to the Metropolitan Water District of Southern California (MWD). Impacting the fiscal year 2013/14 budget was an average 4.8 rate increase from MWD, effective January 1, 2014. An additional 3.7% increase was also adopted and will take effect January 1, 2015. These rate increases are part of an overall 24% rate increase since January 1, 2010. As the cost of import water has continued to increase, the cost of groundwater, purchased from the Orange County Water District (OCWD), has kept pace. Over the FY 2010/11, FY 2011/12 and FY 2012/13 years, the District averaged annual sales of 19,907 acre-feet. However, during the 2013/14 fiscal year, the District sold approximately 2,000 acre-feet more water than anticipated. This amounts to an increase in water sales revenue of \$1.8 million. This increase was the result of calendar year 2013 being the driest year on record for most of California since 1850. In response to this and to the California Department of Water Resources snowmelt runoff report for 2014, Governor Brown has announced a Drought State of Emergency for California. For FY 2014/15 the District's water sales are estimated to be greater than 21,000 acre-feet, even with 5% voluntary conservation efforts from the District's customer base being taken into consideration.

As of May 2014, the District was granted annexation of the remaining 26% of its service area into Orange County Water District (OCWD). It is anticipated that with full annexation the District will be able to pump the maximum groundwater allowable each year, at a lower cost than purchasing the same amount of imported water from MWD. However, the District will not be able to take advantage of full annexation for FY 2014/15 due to the 2003 Conjunctive Use Program (CUP) Agreement and due to the need to complete construction of capital facilities. The CUP Agreement requires the District to withdraw 2,193 acre-feet over and above OCWD's Basin Production Percentage (BPP) for the upcoming fiscal year and pay for the water at current import water rates, after subtracting power and operations and the maintenance charges of \$132 per acre-foot.

Had the District been able to access the entirety of OCWD's Basin Production Percentage (BPP) for the fiscal year 2014/15, the District would have been able to lower its variable water costs by approximately \$1.0 million. As variable water costs comprise approximately 53% of the District's operating expenses, ensuring these costs are held as low as possible is a top priority each and every fiscal year.

California's water supply continues to be a concern due to projected population increases, cyclical drought conditions, and environmental and regulatory restrictions that threaten the State's water supply and conveyance system through the Sacramento-San Joaquin Delta—all of which lead to increasing supply costs. Within the District's boundaries, population growth is expected to increase only minimally in the next 5-10 years, as more than 50% of the current households have children under the age of 18 who are not expected to add to this growth via newborns. Additionally, the District's area is primarily "built out", and an influx of residents from outside the area is expected to remain fairly low. The State of California, however, is expected to grow by 20 million people over the next 40 years.

### **Mission/Vision Statement and Major Initiatives**

The activities of the Board and staff of the District are driven by its Mission Statement: "Yorba Linda Water District will provide reliable, high quality water and sewer services in an environmentally responsible manner, while maintaining an economical cost and unparalleled customer service to our community," and its Vision Statement: "Yorba Linda Water District will become the leading, innovative and efficient source for high quality reliable services." The Mission and Vision Statements dictate the following five core values of the District.

1. **Integrity**– We demonstrate integrity every day by practicing the highest ethical standards and by ensuring that our actions follow our words.
2. **Accountability**– We acknowledge that both the Board and the staff of the District are accountable to the public that we serve, as well as to each other.
3. **Responsibility**– We take full responsibility for our actions- both our successes and our opportunities for growth. We maintain a commitment of courtesy, assessment and resolution with all customer concerns.
4. **Transparency** – We promote a culture where we actively listen to our customers and communicate openly about our policies, processes, and plans for the future.
5. **Teamwork** – Success centers on all departments working together and sharing information and resources to achieve common goals. We are dedicated to ensuring that every voice of the District, from the Board to each individual employee is treated with dignity and respect, and that differences are valued and individual abilities and contributions are recognized.

### **Major Accomplishments during FY 2013/14**

Previously, the Board of Directors approved the FY 2007-2012 five-year capital improvement plan totaling \$57.7 million. The projects in this plan were identified for funding with the 2003 and 2008 Series Certificates of Participation (Revenue Bonds), in combination with annexation funds and other reserves held by the District. These projects are completed or underway as of the time of preparation of this report.

For fiscal years 2011 through 2015, staff identified projects totaling \$37.4 million. Included in that amount, \$4.3 million was spent through the end of fiscal year 2010/11. The remaining \$33.1 million is therefore proposed for consideration by the Board for Capital Improvement Projects/Capital Replacement Projects (CIP/CRP) that will extend through fiscal year 2015/16. Approximately \$8.5 million of the \$33.1 million was spent in fiscal year 2011/12, \$5.8 million in fiscal year 2012/13, and \$3.9 million in fiscal year 2013/14 for projects in planning, design and construction. Fiscal year 2013/14 projects included the following:

#### **Yorba Linda Blvd Booster Pump Station Project**

Total Project Budget: \$1,898,000

Proposed FY 14/15 Budget: \$100,000

The project consists of replacing the existing Palm Avenue Booster Pump Station with a three-pump 5,000-gpm capacity new pump station at Gun Club Road and Yorba Linda Blvd. The project will make it possible to deliver more groundwater to the easterly portion of the District's service area. Construction of the new pump station began in FY12/13 and will be complete in FY 14/15. Incurred costs through FY 13/14 and projected costs in FY 14/15 are estimated to be \$1,798,000 and \$100,000, respectively.

#### **Well #21 Project**

Total Project Budget: \$2,307,000

Proposed FY 14/15 Budget: \$940,000

Work began in FY 12/13 on plans for the drilling of the new well. In FY13/14, a test well was drilled to confirm the quantity and quality of water for the well. Thereafter, the well was drilled out and completed with a steel casing and pump-tested. Project costs in FY 13/14 and FY 14/15 are estimated to be \$1,086,000 and \$940,000, respectively. Work planned for FY 14/15 includes construction of wellhead facilities and a discharge pipeline.

**Well #22 Project**

Total Project Budget: \$2,500,000

Proposed FY 14/15 Budget: \$445,000

Reconnaissance field investigation and site evaluations started in FY 13/14. In FY14/15, a site is expected to be determined and the property acquired, at a budgeted cost of \$445,000. Budgeted for FY15/16 is the drilling of the well and the preparation of plans for well equipping at an estimated cost of \$800,000. Budgeted for FY 16/17 is construction of wellhead facilities and a discharge pipeline at an estimated cost of \$1,247,000.

**Fairmont Pump Station Upgrade Project**

Total Project Budget: \$6,300,000

Proposed FY 14/15 Budget: \$2,500,000

The project is the refurbishment and upgrading of the Fairmont Booster Station. The existing 37-year old booster station will be demolished and its two booster pumps will be replaced by six, pumping to two different pressure zones. A new building will be constructed to house the pumps, as well as disinfection, electrical and back-up generation facilities. The project will also include refurbishment of elements of the Fairmont Reservoir. Planned for FY14/15 is completion of design plans and the beginning of construction at an estimated cost of \$2.5 million. Construction will continue in FY 15/16 at an estimated cost of \$2.9 million. Part of the cost of the improvements will be offset by developer-provided funding.

**Lakeview Grade Separation Project**

Total Project Budget: \$600,000

Proposed FY 14/15 Budget: \$265,000

The Orange County Transportation Authority (OCTA) is the lead agency for a planned Lakeview Avenue bridge over Orangethorpe Avenue and the adjacent BNSF Railroad tracks. As part of the project, it will be necessary to replace and relocate the District's water line currently in Lakeview Avenue through the project area. The District's share of the pipeline relocation will be \$250,000. Construction of the pipeline relocation work is anticipated to begin mid-2014, with a mid-2015 completion for all utility relocations. OCTA's bridge construction will follow.

**Yorba Linda High School Park Pipeline Relocation Project**

Total Project Budget: \$370,000

Proposed FY 14/15 Budget: \$325,000

The proposed Yorba Linda High School Park, within Placentia-Yorba Linda Unified School District's (PYLUSD) property located south of Yorba Linda High School, includes proposed grading with nearly 18-feet of fill over our existing 39-inch diameter Bryant Cross Feeder (BCF) pipeline. The BCF pipeline will be unable to support the additional fill, and must be relocated. Per the Pre-Annexation Agreement with PYLUSD, the District is responsible for design and construction costs for relocating approximately 530 lineal feet of the BCF pipeline, at an estimated cost of \$370,000. This work is anticipated to start late summer 2014 and be completed by late 2014.

**Future Pipeline Replacement Project**

Total Project Budget: \$2,690,000

Proposed FY 14/15 Budget: \$660,000

In accordance with the District’s Asset Management Plan, the District is replacing older water pipelines as part of an ongoing program. Staff will design approximately 2,000 feet of the more critical pipeline replacement reaches during FY 14/15, with pipeline construction in late FY 14/15 to early FY15/16. Additional waterline replacement work +will be designed and installed during subsequent fiscal years.

**Deville Drive Waterline Extension**

Total Project Budget: \$50,000

Proposed FY 14/15 Budget: \$25,000

The District will design and install approximately 130-feet of 6-inch diameter pipeline in Deville Drive in accordance with a previous Agreement and payment made by a Deville Drive property owner. Staff completed the design in-house during FY 13/14. Installation is anticipated to be complete during FY 14/15.

**Timber Ridge Booster Station Rehabilitation**

Total Project Budget: \$250,000

Proposed FY 14/15 Budget: \$240,000

Timber Ridge Booster Station is undersized and needs additional emergency pumping capacity. Staff will evaluate the least cost method to install a new gas engine enclosed with a new building, or install a new electric generator and possibly upsizing one or more of the existing pumps.

**Future PRS Rehabilitation**

Total Project Budget: \$1,430,000

Proposed FY 14/15 Budget: \$100,000

The District will solicit proposals for design and rehabilitation upgrades of the existing Pressure Reducing Stations (PRS) that require frequent maintenance, and do not meet current District standards. Design work will be completed during FY 14/15 and construction is anticipated to be complete during FY 15/16.

Other major accomplishments in fiscal year 2013/14 include the following:

- Completed Construction of 2012 Waterline Project
- Completed Construction of Elk Mountain Booster Surge Tank
- Completed Construction of Yorba Linda Boulevard Pipeline Project
- Commenced Construction of Yorba Linda Booster Station Project
- Commenced Construction of Well #21
- Commenced Design of Fairmont Booster Pump Station Replacement Project
- Received Positive Auditors Letter for FY 2012/13
- Received State and National Recognition for CAFR
- Received State and National Recognition for FY 2013/14 Budget document
- Executed Multi-Year Memorandum of Understanding (MOU)
- Annexation to OCWD Approved

### **Future Years**

Amidst the national economic conditions and the Governor's state declaration of Drought Water Emergency, our region continues to face water supply issues due to extended drought seasons, as well as judicial, environmental and regulatory restrictions. First and foremost, we continue to monitor the State's mandated water conservation restrictions and potential shift of our property tax revenues. Secondly, with water conservation and reduced water sales, our ability to maintain a high level of services while holding costs down, has been seriously challenged.

### ***Water Rate & Increases***

In FY 2013/14, YLWD charged a uniform commodity rate of \$2.64 per unit and a monthly fixed charge based on the size of the meter. Meters sized 5/8 and 3/4 inch were charged \$8.08, 1 inch meters were charged \$14.67, 1 ½ inch meters were charged \$29.34, 2 inch meters were charged \$46.94, 3 inch meters were charged \$102.67, 4 inch meters were charged \$187.80 and 6 inch meters were charged \$410.67. One unit of water equals 748 gallons, equating one gallon of water to a cost of approximately \$0.0035 (one third of a cent). At an average of 30 units of water per month (approximately 22,500 gallons), a typical 1 inch metered YLWD customer would pay about \$ 93.87 on the average for their monthly water bill. YLWD also provided wastewater service to all 24,796 of the District's water customer base in fiscal year 2013/14, at a charge of \$5.50 per month. The District also provided sewer service to approximately 1,400 customers that it does not provide water to. These customers, in the "Locke Ranch" area of Yorba Linda, are served by a private water company—Golden State Water Company.

These rates are the result of a Cost of Service Analysis and Alternative Water Rate Feasibility Study in fiscal year 2011/12, which addressed the impacts of implementing a tiered water conservation rate structure and/or a budget-based water rate structure for customers of the District. The result of this study was a three-year rate increase to customers on the Monthly Service Charge, approved by the Yorba Linda Water District Board of Directors. The approved rate increase is a percentage on the District's overall

revenue and consists of a 1.5% revenue increase beginning on July 1, 2012, a 2.5% increase beginning on July 1, 2013, and a 2.5% increase beginning on July 1, 2014. These increases will assist in covering the costs associated with operating, maintaining and replacing the District's water facilities. The District will also be passing through to customers any future increases on the commodity charge from its water suppliers as these charges are based on the amount of water sold.

In conjunction with this rate increase, the Board of Directors recommended that staff pursue a line of credit with Wells Fargo for \$7 million with a 3-year renewable term and an interest rate based on 1 month London Inter-Bank Offered Rate (LIBOR), currently calculated at 1.10%. The line of credit will allow the District to pursue future capital improvement projects with a minimal borrowing cost and a lowered financial burden to our customers.

The District also issued Refunding Revenue Bonds, Series 2012A, which advance refunded the 2003 Certificates of Participation (COP) Bonds. This is estimated to save approximately \$80,000 annually.

In FY 2014/15, Yorba Linda Water District faces many challenges related to water supply and demand. The District's water supply is currently derived from both groundwater and import water, approximately 50% from each source. Both import and groundwater prices have dramatically increased over the past four fiscal years, and it is anticipated that costs will continue to increase as supplies become more strained from projected population increases, cyclical drought conditions, and environmental and regulatory restrictions.

### ***Enhanced Outreach & Communications***

The District continues to enhance its communications with and presence within the community. Within the FY 2013/14 Budget, the District funded a Public Information Officer position and one part-time Public Affairs Intern positions. The Public Affairs division of the Administration department develops and disseminates information to the public and supports water conservation programs with the overall goal of developing a more transparent image of the District to the community.

The District's Citizens Advisory Committee, made up of local residents, who serve as ambassadors to the community, meet with District staff on a monthly basis to discuss and provide recommendations on various pending District issues. The committee has been actively involved with issues such as the water rate increase, the water conservation ordinance, continuing conservation outreach, public information, and various other matters as they arise. In November 2010, three Citizens Advisory Committee members ran for, and won election to seats on the District Board of Directors. Those three seats will be up for re-election in November 2014.

### **Technological Advancements in Progress**

Technological advancements include the incorporation of a Computerized Maintenance & Management System (CMMS), which automates and tracks field work orders and provide actual costs to perform work-order related functions. In planning is an Automated Purchase Requisitioning System, which will provide better workflow and approvals for purchasing items, as well as have direct integration with the new financial software.

### **Internal Control Structure**

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

### **Budgetary Control**

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

### **Cash and Investment Management**

In order of priority, the District's objectives when investing, reinvesting, purchasing, acquiring, selling and managing public funds are as follows:

1. *Safety*: Safety of principal is the foremost objective of the investment program. Investments made by the District are undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required to prevent any potential loss on any individual security or depository from exceeding the income generated from the remainder of the portfolio.
2. *Liquidity*: The investment portfolio will remain sufficiently liquid to enable the District to meet all operating requirements that might be reasonably anticipated.

3. *Return on Investments:* The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio.

**Audit and Financial Reporting**

State Law and Bond covenants require the District to obtain an annual audit of its financial statements by an independent certified public accountant. The accounting firm of White, Nelson, Diehl, Evans LLP has conducted the audit of the District's financial statements. Their unqualified (clean) Independent Auditor's Report appears in the Financial Section.

**Other References**

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

**Acknowledgements**

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

Respectfully submitted,



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Marc Marcantonio  
General Manager



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Delia Lugo  
Finance Manager

**Yorba Linda Water District  
Board of Directors and Executive Staff**



Robert R. Kiley, President



Ric Collett, Vice President



Michael J. Beverage  
Director



Phil Hawkins  
Director



Gary T. Melton  
Director



Marc Marcantonio  
General Manager



Steve Conklin  
Engineering Manager



John DeCriscio  
Operations Manager



Gina Knight  
HR & Risk Manager

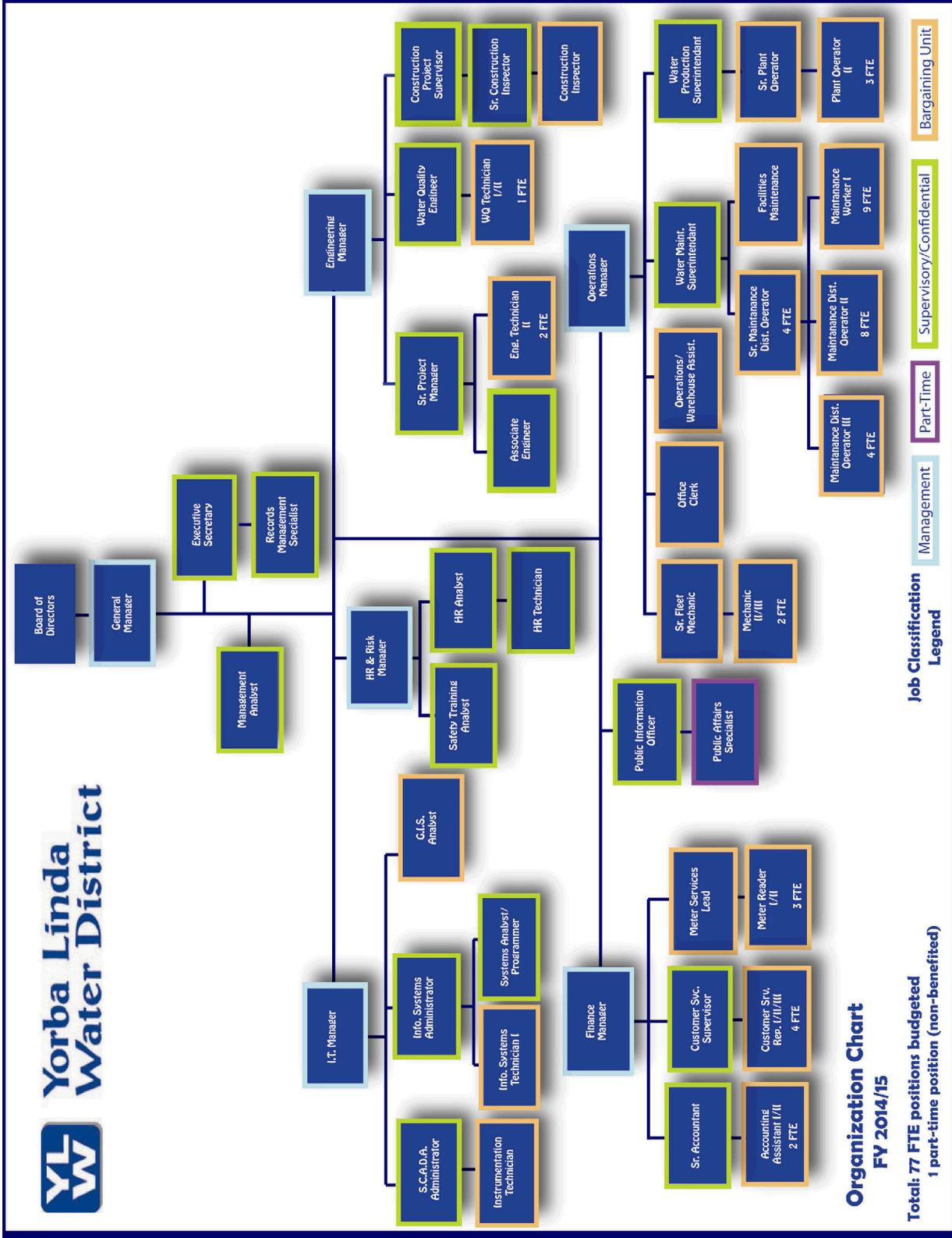


Delia Lugo  
Finance Manager

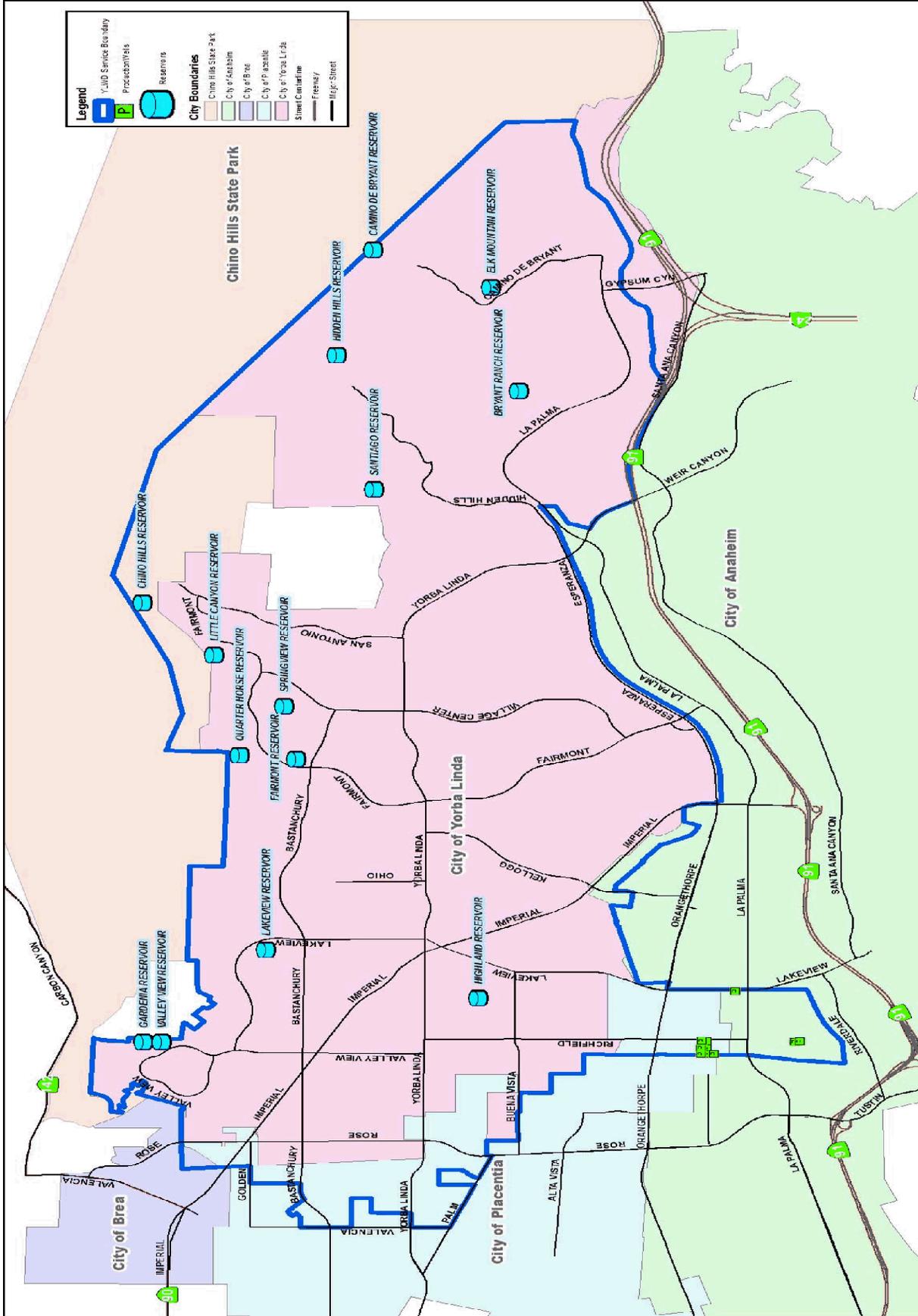


Art Vega  
Acting IT Manager

# Yorba Linda Water District Organization Chart



# District Boundaries





Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**Yorba Linda Water District  
California**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2013**

Executive Director/CEO

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## **FINANCIAL SECTION**

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Yorba Linda Water District  
Placentia, California

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

We have audited the accompanying financial statements of Yorba Linda 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 financial statements as listed in the table of contents.

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

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

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Yorba Linda Water District, as of June 30, 2014, and the respective changes in financial position and cash flows thereof for the year 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 Matters**

### *Partial Summarized Comparative Information*

The financial statements include partial year comparative information. Such information does not include all of the information required to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2013 from which such partial information was derived.

### *Report on Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other post-employment benefit plan - schedule of funding progress, as identified in the accompanying table of contents as required supplementary information, 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 Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's financial statements. The introductory section, supplementary information consisting of combining schedules, schedule of operating expenses by cost center and nature of expenses for water and sewer, schedule of capital assets and statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

## **Other Matters (Continued)**

### *Other Information (Continued)*

The combining schedules, schedule of operating expenses by cost center and nature of expenses for water and sewer and schedule of capital assets, as listed in the table of contents, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining schedules, schedule of operating expenses by cost center and nature of expenses for water and sewer and schedule of capital assets are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion or provide any assurance on them.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 Diehl Evans LLP*

Irvine, California  
September 12, 2014

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# YORBA LINDA WATER DISTRICT

## *MANAGEMENT'S DISCUSSION AND ANALYSIS*

**For the Year Ended June 30, 2014**

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

### **Financial Highlights**

- The District's net position increased by \$6 million, or a 3.7% increase in net position.
- During the year the District's revenues were \$34.1 million, up 10.1%.
- During the year, the District's expenses were \$35.1 million, up 3.8%.

### **Required Financial Statements**

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

The District's statements consist of two funds; the Water Fund and the Sewer Fund. The District's records are maintained on an enterprise basis, as it is the intent of the Board of Directors that the costs of providing water and sewer to the customer of the District are financed primarily through user charges.

The Statement of Net Position includes all of the District's investments in resources (assets), deferred outflows of resources, obligations to creditors (liabilities) and deferred inflow of resources. It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness. The final required financial statement is the Statement of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

See independent auditors' report.

**YORBA LINDA WATER DISTRICT**

***MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)***

**For the Year Ended June 30, 2014**

**Financial Analysis of the District**

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the District in a way that helps answer this question. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

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

**Notes to the Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 19 through 46.

See independent auditors' report.

**YORBA LINDA WATER DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)**

**For the Year Ended June 30, 2014**

**Statement of Net Position**

	<u>2014</u>	<u>2013</u>	<u>Change</u>
Assets:			
Current assets	\$ 31,772,410	\$ 21,994,679	\$ 9,777,731
Restricted assets	2,229,419	2,171,030	58,389
Capital assets, net	199,641,820	200,985,168	(1,343,348)
<b>Total assets</b>	<u>233,643,649</u>	<u>225,150,877</u>	<u>8,492,772</u>
Deferred Outflows of Resources:			
Deferred amount on refunding	<u>474,939</u>	<u>498,686</u>	<u>(23,747)</u>
Liabilities:			
Liabilities payable from unrestricted current assets	6,390,185	6,157,781	232,404
Liabilities payable from restricted assets	1,087,095	975,640	111,455
Non-current liabilities	58,864,439	56,789,561	2,074,878
<b>Total liabilities</b>	<u>66,341,719</u>	<u>63,922,982</u>	<u>2,418,737</u>
Net position:			
Net investment in capital assets	161,159,541	161,494,158	(334,617)
Unrestricted	6,617,328	232,423	6,384,905
<b>Total net position</b>	<u>\$ 167,776,869</u>	<u>\$ 161,726,581</u>	<u>\$ 6,050,288</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources of the District exceeded liabilities by \$167.8 million and \$161.7 million as of June 30, 2014 and 2013, respectively.

By far the largest portion of the District's net position (96% and 100% as of June 30, 2014 and 2013, respectively) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are *not* available for future spending.

For the year ended June 30, 2014, the District showed a positive balance in its unrestricted net position of \$6.6 million, which indicates that there are reserves to be utilized in future years, which is a significant improvement from the stated balance of \$232 thousand for the year ended June 30, 2013.

See independent auditors' report.

**YORBA LINDA WATER DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)**

**For the Year Ended June 30, 2014**

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

	<u>2014</u>	<u>2013</u>	<u>Change</u>
<b>Revenues:</b>			
Operating revenues:			
Water sales	\$ 28,376,082	\$ 26,369,940	\$ 2,006,142
Sewer revenue	1,762,816	1,762,039	777
Other operating revenue	<u>1,047,625</u>	<u>723,577</u>	<u>324,048</u>
Total operating revenues	<u>31,186,523</u>	<u>28,855,556</u>	<u>2,330,967</u>
Non-operating revenues:			
Investment income	145,048	137,569	7,479
Property taxes	1,394,722	1,340,916	53,806
Other non-operating income	<u>1,325,685</u>	<u>588,854</u>	<u>736,831</u>
Total non-operating revenue	<u>2,865,455</u>	<u>2,067,339</u>	<u>798,116</u>
<b>Total revenues</b>	<u>34,051,978</u>	<u>30,922,895</u>	<u>3,129,083</u>
<b>Expenses:</b>			
Operating expenses:			
Variable costs	14,673,144	13,509,336	1,163,808
Personnel services	7,529,481	7,225,729	303,752
Supplies and services	3,849,183	4,222,398	(373,215)
Depreciation	<u>7,315,084</u>	<u>6,884,213</u>	<u>430,871</u>
Total operating expenses	<u>33,366,892</u>	<u>31,841,676</u>	<u>1,525,216</u>
Non-operating expenses:			
Interest expense	1,715,429	1,781,416	(65,987)
Bond issuance cost	-	192,410	(192,410)
Other non-operating expense	<u>47,948</u>	<u>35,954</u>	<u>11,994</u>
Total non-operating expenses	<u>1,763,377</u>	<u>2,009,780</u>	<u>(246,403)</u>
<b>Total expenses</b>	<u>35,130,269</u>	<u>33,851,456</u>	<u>1,278,813</u>
<b>Net income(loss) before capital contributions     and extraordinary item</b>	<u>(1,078,291)</u>	<u>(2,928,561)</u>	<u>1,850,270</u>
Capital contributions	2,128,579	1,174,673	953,906
Extraordinary item	<u>5,000,000</u>	<u>-</u>	<u>5,000,000</u>
<b>Change in net position</b>	<u>6,050,288</u>	<u>(1,753,888)</u>	<u>7,804,176</u>
<b>Net position, beginning of year</b>	<u>161,726,581</u>	<u>163,480,469</u>	<u>(1,753,888)</u>
<b>Net position, end of year</b>	<u>\$ 167,776,869</u>	<u>\$ 161,726,581</u>	<u>\$ 6,050,288</u>

See independent auditors' report.

**YORBA LINDA WATER DISTRICT**

***MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)***

**For the Year Ended June 30, 2014**

The statement of revenues, expenses and changes of net position shows how the District's net position changed during the fiscal years. In the case of the District, net position increased by \$6 million and decreased by \$1.8 million for the fiscal years ended June 30, 2014 and 2013, respectively.

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

In 2014, the District's total revenues increased by \$3.1 million, primarily due to an increase in water sales of \$2.0 million as a result of a warm weather patterns and the lack of rain over the course of the year and an increase in non-operating other income of \$736 thousand due to recorded gains for the sale of assets. Total expenses increased by \$1.3 million primarily due to increased variable water costs of \$2.0 million due to increased water purchases. In addition, the District recorded a receipt of funds from the resolution of a claim as an Extraordinary Item in the amount of \$5 million.

In 2013, the District's total revenues increased by \$933 thousand, primarily due to an increase in water sales of \$1.3 million as a result of a warmer summer than the two previous years and an improving economy. In addition, total expenses increased by \$2.6 million primarily due to increased variable water costs of \$1.2 million due to increased water purchases and an overall increase of \$950 thousand in the remaining operating expense categories.

See independent auditors' report.

**YORBA LINDA WATER DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)**

**For the Year Ended June 30, 2014**

**Capital Assets**

**Changes in capital asset amounts for 2014 were as follows:**

	<u>Balance 2013</u>		<u>Additions</u>		<u>Transfers/ Deletions</u>		<u>Balance 2014</u>
Capital assets:							
Capital assets, not being depreciated	\$ 5,835,304	\$	5,658,198	\$	(4,596,188)	\$	6,897,314
Capital assets, being depreciated	264,004,834		4,915,408		(1,073,446)		267,846,796
Less accumulated depreciation	<u>(68,995,334)</u>		<u>(7,315,084)</u>		<u>1,069,185</u>		<u>(75,241,233)</u>
Total capital assets, net	\$ <u>200,844,804</u>	\$	\$ <u>3,258,522</u>	\$	\$ <u>(4,600,449)</u>	\$	\$ <u>199,502,877</u>

**Changes in capital asset amounts for 2013 were as follows:**

	<u>Balance 2012</u>		<u>Additions</u>		<u>Transfers/ Deletions</u>		<u>Balance 2013</u>
Capital assets:							
Capital assets, not being depreciated	\$ 10,886,493	\$	6,191,597	\$	(11,242,786)	\$	5,835,304
Capital assets, being depreciated	252,375,491		11,736,626		(107,283)		264,004,834
Less accumulated depreciation	<u>(62,212,128)</u>		<u>(6,884,213)</u>		<u>101,007</u>		<u>(68,995,334)</u>
Total capital assets, net	\$ <u>201,049,856</u>	\$	\$ <u>11,044,010</u>	\$	\$ <u>(11,249,062)</u>	\$	\$ <u>200,844,804</u>

At the end of fiscal year 2014 and 2013, the District's investment in capital assets amounted to \$199.5 million and \$200.8 million, respectively (net of accumulated depreciation). This investment in capital assets includes land, transmission and distribution systems, reservoirs, tanks, pumps, buildings and structures, equipment, vehicles and construction-in-process, etc. Major capital assets projects in fiscal year 2013-14 include Yorba Linda Boulevard Pipeline project, construction of various water and sewer mains for development, and the purchase of various district vehicles.

Additional information regarding capital assets can be found in note 4 in Notes to Basic Financial Statements.

See independent auditors' report.

**YORBA LINDA WATER DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)**

**For the Year Ended June 30, 2014**

**Long-Term Liabilities**

Changes in long-term debt amounts for the year ended June 30, 2014 were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
2008 Revenue Certificates of Participation	\$ 32,070,000	\$ -	\$ (705,000)	\$ 31,365,000
2012A Refunding Certificate of Participation	8,330,000	-	(260,000)	8,070,000
Subtotal	<u>40,400,000</u>	-	<u>(965,000)</u>	39,435,000
Add (Less):				
2008 Pemium	651,695	-	(26,420)	625,275
2012A Premium	958,027	-	(47,703)	910,324
Total Certificates	<u>42,009,722</u>	-	<u>(1,039,123)</u>	40,970,599
Line of Credit	1,171,131	3,471,525		4,642,656
Compensated Balances	<u>1,000,383</u>	<u>623,735</u>	<u>(576,776)</u>	<u>1,047,342</u>
Total	\$ <u>44,181,236</u>	\$ <u>4,095,260</u>	\$ <u>(1,615,899)</u>	\$ <u>46,660,597</u>

Changes in long-term liabilities amounts for the year ended June 30, 2013 were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
2003 Revenue Certificates of Participation	\$ 8,965,000	\$ -	\$ (8,965,000)	\$ -
2008 Revenue Certificates of Participation	32,750,000	-	(680,000)	32,070,000
2012A Refunding Certificate of Participation	-	8,330,000	-	8,330,000
Subtotal	<u>41,715,000</u>	<u>8,330,000</u>	<u>(9,645,000)</u>	40,400,000
Add (Less):				
2003 Discount	(114,986)	-	114,986	-
2008 Pemium	678,115	-	(26,420)	651,695
2012A Premium	-	1,001,754	(43,727)	958,027
Total Certificates	<u>42,278,129</u>	<u>9,331,754</u>	<u>(9,600,161)</u>	42,009,722
Line of Credit		1,171,131		1,171,131
Compensated Balances	<u>1,063,572</u>	<u>624,669</u>	<u>(687,858)</u>	<u>1,000,383</u>
Total	\$ <u>43,341,701</u>	\$ <u>11,127,554</u>	\$ <u>(10,288,019)</u>	\$ <u>44,181,236</u>

Additional information regarding long-term liabilities can be found in note 5 in Notes to Basic Financial Statements.

See independent auditors' report.

**YORBA LINDA WATER DISTRICT**  
***MANAGEMENT'S DISCUSSION AND ANALYSIS***  
***(CONTINUED)***

**For the Year Ended June 30, 2014**

**Requests for Information**

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District at 1717 E. Miraloma Avenue, Placentia, California 92807 or the Finance Department at (714) 701-3040.

See independent auditors' report.

## **BASIC FINANCIAL STATEMENTS**

YORBA LINDA WATER DISTRICT

STATEMENTS OF NET POSITION

June 30, 2014

(With prior year data for comparison only)

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2014	2013
CURRENT ASSETS:		
UNRESTRICTED ASSETS:		
Cash and cash equivalents (Note 2)	\$ 20,111,912	\$ 10,354,438
Investments (Note 2)	7,141,791	7,051,042
Accounts receivable - water and sewer services	3,976,655	4,063,578
Accounts receivable - property taxes	24,597	16,885
Accrued interest receivable	11,991	8,205
Prepaid expenses and deposits	267,261	259,329
Inventory	238,203	241,202
TOTAL UNRESTRICTED ASSETS	31,772,410	21,994,679
RESTRICTED ASSETS:		
Cash and cash equivalents (Note 2)	114,334	33,886
Investments (Note 2)	2,115,085	2,137,144
TOTAL RESTRICTED ASSETS	2,229,419	2,171,030
TOTAL CURRENT ASSETS	34,001,829	24,165,709
NONCURRENT ASSETS:		
Capital assets (Note 4):		
Non-depreciable	6,897,314	5,835,304
Depreciable, net of accumulated depreciation	192,605,563	195,009,500
Other post-employment benefit (OPEB) asset (Note 6)	138,943	140,364
TOTAL NONCURRENT ASSETS	199,641,820	200,985,168
TOTAL ASSETS	233,643,649	225,150,877
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred amount on refunding	474,939	498,686
TOTAL DEFERRED OUTFLOWS OF RESOURCES	474,939	498,686

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

(Continued)

YORBA LINDA WATER DISTRICT

STATEMENTS OF NET POSITION  
(CONTINUED)

June 30, 2014

(With prior year data for comparison only)

LIABILITIES	<u>2014</u>	<u>2013</u>
CURRENT LIABILITIES:		
PAYABLE FROM UNRESTRICTED CURRENT ASSETS:		
Accounts payable	\$ 4,748,341	\$ 4,594,253
Accrued expenses	263,178	197,033
Compensated absences payable - current portion (Note 5)	261,836	250,096
Customer and construction deposits	309,734	277,799
Unearned revenue	374,356	397,522
Accrued interest payable	<u>432,740</u>	<u>441,078</u>
TOTAL PAYABLE FROM UNRESTRICTED CURRENT ASSETS	<u>6,390,185</u>	<u>6,157,781</u>
PAYABLE FROM RESTRICTED ASSETS:		
Retention payable	77,095	10,640
Certificates of Participation - current portion (Note 5)	<u>1,010,000</u>	<u>965,000</u>
TOTAL PAYABLE FROM RESTRICTED ASSETS	<u>1,087,095</u>	<u>975,640</u>
TOTAL CURRENT LIABILITIES	<u>7,477,280</u>	<u>7,133,421</u>
LONG-TERM LIABILITIES (LESS CURRENT PORTION):		
Unearned annexation revenue	13,475,678	13,823,421
Compensated absences (Note 5)	785,506	750,287
Payable on line of credit (Note 5)	4,642,656	1,171,131
Certificates of Participation (Note 5)	<u>39,960,599</u>	<u>41,044,722</u>
TOTAL LONG-TERM LIABILITIES (LESS CURRENT PORTION)	<u>58,864,439</u>	<u>56,789,561</u>
TOTAL LIABILITIES	<u>66,341,719</u>	<u>63,922,982</u>
NET POSITION:		
Net investment in capital assets (Note 8)	161,159,541	161,494,158
Unrestricted	<u>6,617,328</u>	<u>232,423</u>
TOTAL NET POSITION	<u>\$ 167,776,869</u>	<u>\$ 161,726,581</u>

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

YORBA LINDA WATER DISTRICT  
 STATEMENTS OF REVENUES, EXPENSES  
 AND CHANGES IN NET POSITION

For the year ended June 30, 2014  
 (With prior year data for comparison only)

	2014	2013
OPERATING REVENUES:		
Water sales	\$ 28,376,082	\$ 26,369,940
Sewer revenues	1,762,816	1,762,039
Other operating revenues	1,047,625	723,577
TOTAL OPERATING REVENUES	31,186,523	28,855,556
OPERATING EXPENSES:		
Variable water costs	14,673,144	13,509,336
Personnel services	7,529,481	7,225,729
Supplies and services	3,849,183	4,222,398
Depreciation	7,315,084	6,884,213
TOTAL OPERATING EXPENSES	33,366,892	31,841,676
OPERATING LOSS	(2,180,369)	(2,986,120)
NONOPERATING REVENUES (EXPENSES):		
Property taxes	1,394,722	1,340,916
Investment income	145,048	137,569
Interest expense	(1,715,429)	(1,781,416)
Bond issuance costs	-	(192,410)
Other nonoperating revenues	1,325,685	588,854
Other nonoperating expenses	(47,948)	(35,954)
TOTAL NONOPERATING REVENUES (EXPENSES)	1,102,078	57,559
NET LOSS BEFORE CAPITAL CONTRIBUTIONS AND EXTRAORDINARY ITEM	(1,078,291)	(2,928,561)
CAPITAL CONTRIBUTIONS	2,128,579	1,174,673
EXTRAORDINARY ITEM (NOTE 11)	5,000,000	-
CHANGES IN NET POSITION	6,050,288	(1,753,888)
NET POSITION - BEGINNING OF YEAR	161,726,581	163,480,469
NET POSITION - END OF YEAR	\$ 167,776,869	\$ 161,726,581

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

YORBA LINDA WATER DISTRICT

STATEMENTS OF CASH FLOWS

For the year ended June 30, 2014  
(With prior year data for comparison only)

	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from customers	\$ 31,243,814	\$ 28,610,921
Cash payments to employees for salaries and wages	(7,414,956)	(8,188,469)
Cash payments to suppliers of goods and services	(18,245,150)	(17,945,308)
Other revenues	271,192	359,936
Other expenses	(24,201)	(1,219)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>5,830,699</b>	<b>2,835,861</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Cash received for extraordinary item	5,000,000	-
Proceeds from line of credit	3,471,525	1,171,131
Proceeds from property taxes and assessments	1,386,865	1,452,375
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>9,858,390</b>	<b>2,623,506</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Proceeds from annexation fees and capital contributions	200,942	180,772
Acquisition and construction of capital assets	(4,022,245)	(5,510,763)
Proceeds from sales of capital assets	615,655	10,502
Proceeds from long-term debt issuance	-	9,331,754
Repayment of certificates of participation	-	(9,127,367)
Bond issuance costs	-	(204,383)
Principal paid on long-term liability	(965,000)	(925,000)
Interest paid on long-term liability	(1,813,252)	(1,884,903)
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(5,983,900)</b>	<b>(8,129,388)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Sale/purchase of investments, net	3,340	(7,242,582)
Interest and investment earnings	129,393	148,345
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<b>132,733</b>	<b>(7,094,237)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>9,837,922</b>	<b>(9,764,258)</b>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<b>10,388,324</b>	<b>20,152,582</b>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ 20,226,246</b>	<b>\$ 10,388,324</b>

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

(Continued)

YORBA LINDA WATER DISTRICT

STATEMENTS OF CASH FLOWS  
(CONTINUED)

For the year ended June 30, 2014  
(With prior year data for comparison only)

	<u>2014</u>	<u>2013</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	\$ (2,180,369)	\$ (2,986,120)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	7,315,084	6,884,213
Other revenues	271,192	359,936
Other expenses	(24,201)	(1,219)
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	86,923	(208,252)
Inventory	2,999	43,079
Prepaid expenses and deposits	(7,932)	(15,558)
Other post-employment benefits (OPEB) asset	1,421	(107,734)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	220,543	(287,381)
Accrued salaries and wages	66,145	44,126
Pension related debt	-	(835,943)
Accrued compensated absences	46,959	(63,189)
Customer and construction deposits	31,935	9,903
	<u>8,011,068</u>	<u>5,821,981</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 5,830,699</u>	<u>\$ 2,835,861</u>
CASH AND CASH EQUIVALENTS - FINANCIAL STATEMENT CLASSIFICATION:		
Unrestricted	\$ 20,111,912	\$ 10,354,438
Restricted	114,334	33,886
TOTAL CASH AND CASH EQUIVALENTS - FINANCIAL STATEMENT CLASSIFICATION	<u>\$ 20,226,246</u>	<u>\$ 10,388,324</u>
NONCASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES:		
Amortization related to long-term debt	<u>\$ 74,123</u>	<u>\$ 70,147</u>
Capital contributions	<u>\$ 1,943,658</u>	<u>\$ 1,174,673</u>
Write-off bond discount for defeased bonds	<u>\$ -</u>	<u>\$ 114,986</u>

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

# YORBA LINDA WATER DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2014

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

#### a. Organization and Description of the Reporting Entity:

The Yorba Linda Water District (the District) is an independent special district established in 1959, which operates under the authority of Division 12 of the California Water Code for the purpose of providing water and sewer services to the properties within the District. The District is governed by a five member board of Directors elected by the voters in the area to four-year terms. The District provides two services which include Water and Sewer. Water is provided to the entire service area. Sewer is provided to about two-thirds of the service area. The District's service area includes Yorba Linda and portions of Placentia, Anaheim, Brea, and areas of unincorporated Orange County. The District provides water service to approximately 73,990 residents and sewer service to approximately 72,498 residents.

The financial statements present the District and its component units. The District is the primary government unit. Component units are those entities which are financially accountable to the primary government, either because the District appoints a voting majority or the component unit's board, or because the component unit will provide a financial benefit or impose a financial burden on the District.

The District's reporting entity includes the Yorba Linda Water District Public Financing Corporation, a California nonprofit public benefit corporation, formed in July 2003 for the purpose of providing assistance to the District and other public agencies in the State of California of which the District is a member, or is otherwise engaged with in the financing, refinancing, acquiring, constructing and rehabilitating of facilities, land and equipment, in the sale or leasing of facilities, land and equipment for the use, benefit and enjoyment of the public served by such agencies and any other purpose incidental thereto). Although the District and the Public Facilities Corporation are legally separate entities, the District's Board of Directors is financially responsible for the Public Financing Corporation and, therefore, the accompanying financial statements include the accounts and records of the Public Financing Corporation using the blending method as required by accounting principles generally accepted in the United States of America. There are no separate financial statements for the Public Financing Corporation.

#### b. Basic Financial Statements:

The basic financial statements are comprised of the Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position, the Statements of Cash Flows and the notes to the basic financial statements.

See independent auditors' report.

YORBA LINDA WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

c. Basis of Presentation:

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

d. Measurement Focus and Basis of Accounting:

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

e. New 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.

YORBA LINDA WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

e. New Accounting Pronouncements (Continued):

**Pending Accounting Standards:**

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

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

f. Cash and Cash Equivalents:

The District considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents.

g. Investments and Investment Policy:

The District has adopted an investment policy directing the District's General Manager or Finance Manager to invest, reinvest, sell or exchange securities.

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

h. 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 a bad debt expense. A charge of \$29,632 was made to bad debt expense for the fiscal year ended June 30, 2014.

See independent auditors' report.

YORBA LINDA WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

i. Prepaid Expenses:

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

j. Inventory:

Inventory consists primarily of materials and supplies used in the construction and maintenance of the water and sewer systems and are stated at cost using the average-cost method on a first in, first out basis.

k. Capital Assets:

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at \$5,000. Contributed assets are recorded at estimated fair market value at the date of contribution. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized.

Depreciation is recorded on the straight-line basis over the estimated useful lives of the assets as follows:

Source of Supply	30 to 75 years
Pumping Plant	20 to 40 years
Water Treatment Plant	12 to 40 years
Sewer Plant	5 to 60 years
Transmission and Distribution Plant	10 to 40 years
General Plant	3 to 40 years

l. Interest Expense:

The District incurs interest charges on the Line of Credit and Certificates of Participation. Interest expense of \$15,362 has been capitalized as an addition to the cost of construction for the year ended June 30, 2014.

See independent auditors' report.

YORBA LINDA WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

m. 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) until then. The District has one item that qualifies for reporting in this category. It is the deferred loss on refunding reported in the Statement of Net Position. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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.

n. Compensated Absences:

The District's policy is to permit employees to accumulate earned vacation and sick leave. The liability for vested vacation and sick leave is recorded as an expense when earned. Employees may carry forward up to one and one-half years of earned vacation days and an unlimited number of sick leave days.

Upon termination or retirement, permanent employees are entitled to receive compensation at their current base salary for all unused vacation leave except for those employees that have not completed the probationary period.

Permanent employees that retire in accordance with the Public Employee's Retirement System qualifications are entitled to receive cash compensation at their current base salary for three-eighths of all unused sick leave and the remaining five-eighths of the unused sick leave is contributed to the employee's PERS account. The District has accrued 100% of the unused sick leave as a liability as it expects most employees to meet the PERS requirements when retiring or leaving the District.

o. Construction Advances and Deposits:

Construction deposits are collected by the District to cover the cost of construction projects within the District. Funds in excess of project costs are refunded to the customer.

See independent auditors' report.

YORBA LINDA WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

p. Construction Bonding Deposits:

The District's policy is to maintain certain bonding requirements for water and sewer construction projects performed within District boundaries to ensure the proper completion of the project. Deposited amounts are refunded upon final approval of the project.

q. Unearned Revenue:

Unearned revenue consists of customer refunds that have not been cashed and prepaid connection fees. Connection fees are collected by the District to cover the cost of service connections within the District. Funds in excess of connection costs are refunded to the customer.

r. Unearned Annexation Revenue:

The District collects a fee from newly annexed developments for all residential and commercial properties. This fee is in-lieu of the District's share of the 1% property tax revenue which the District no longer received post-Proposition 13. The fee is a present worth value required to generate a forty year revenue stream equivalent to the lost property tax revenue. It is calculated based on the fair market value estimate of the improved property at the time the fee is collected and based on the current rate of return on the District's investments. The deposit balance accrues interest and provides a source of operational revenue for the District. This unearned revenue source may be used for capital facilities in the future if approved by the Board.

s. Net Position:

In the Statement of Net Position, net position is classified in the following categories:

- Net investment in capital assets - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.
- Restricted net position - This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.
- Unrestricted net position - This amount is all net position that does not meet the definition of "net investment in capital assets" or "restricted net position".

See independent auditors' report.

YORBA LINDA WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

t. Net Position Flow Assumptions:

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the Statement of Net Position, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the District's practice to consider restricted - net position to have been depleted before unrestricted - net position is applied.

u. Operating Revenues and Expenses:

Operating revenues, such as charges for services (water sales and sewer service charges) result from exchange transactions associated with the principal activity of the District. Nonoperating revenues, such as property taxes and assessments, and investment income, result from nonexchange transactions or ancillary activities in which the District receives value without directly giving equal value in exchange.

Operating expenses include the cost of sales and services, administrative expenses and depreciation on capital assets. All expenses not meeting this definition are reported as nonoperating expenses.

v. Property Taxes and Assessments:

The Orange County Assessor's Office assesses all real and personal property within the County each year. The Orange County Tax Collector's Office bills and collects the District's share of property taxes and assessments. The Orange County Treasurer's Office remits current and delinquent property tax collections to the District throughout the year. 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 governments.

See independent auditors' report.

YORBA LINDA WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

v. Property Taxes and Assessments (Continued):

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

Lien Date:	January 1
Levy Date:	July 1
Due Dates:	First Installment - November 1 Second Installment - March 1
Collection Dates:	First Installment - December 10 Second Installment - April 10

w. Water and Sewer Sales:

The District recognizes water and sewer service charges based on cycle billings rendered to the customers each month.

x. Capital Contributions:

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

y. Budgetary Policies:

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

z. Use of Estimates:

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

See independent auditors' report.

YORBA LINDA WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2014

2. CASH AND INVESTMENTS:

**Cash and Investments:**

Cash and investments as of June 30, 2014 are reported in the accompanying statement of net position as follows:

Unrestricted Current Assets:	
Cash and cash equivalents	\$ 20,111,912
Investments	7,141,791
Restricted Assets:	
Cash and cash equivalents	114,334
Investments	<u>2,115,085</u>
Total Cash and Investments	<u>\$ 29,483,122</u>

Cash and investments as of June 30, 2014 consisted of the following:

Cash on hand	\$ 1,250
Deposits with financial institutions	4,999,634
Escrow deposits	77,095
Investments	<u>24,405,143</u>
Total Cash and Investments	<u>\$ 29,483,122</u>

**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.

See independent auditors' report.

YORBA LINDA WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2014

2. CASH AND INVESTMENTS (CONTINUED):

**Investments Authorized by the California Government Code and the District's Investment Policy (Continued):**

This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio *</u>	<u>Maximum Investment in One Issuer</u>	<u>Minimum Credit Rating</u>
Bank or Savings and Loans	5 years	None	None	FDIC or FSLIC
Negotiable Certificates of Deposit	5 years	30%	None	A and FDIC/ collateralized
Local Agency Investment Fund (LAIF) Orange County Commingled Investment Pool	N/A	None	None	N/A
California Asset Management Program United States Treasury Bills, Notes and Bonds	N/A	(1)	None	N/A
United States Government Sponsored Agency Securities	5 years	None	None	N/A
Corporate Bonds	5 years	30%	None	A
Bankers Acceptances	180 days	10%	5%	A-1
Commercial Paper	270 days	25%	5%	A-1
CalTRUST Investment Pool	N/A	None	None	N/A
Money Market Funds	N/A	20%	10%	N/A

\* Excluding amounts held by bond trustee that are not subject to California Government Code restrictions.

(1) Limited to bond proceeds held by the District.

N/A - Not Applicable

See independent auditors' report.

YORBA LINDA WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2014

2. CASH AND INVESTMENTS (CONTINUED):

**Investments Authorized by Debt Agreements:**

Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustees. The table also identifies certain provisions of these debt agreements that address interest rate risk and concentration of risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment in One Issuer</u>
Cash	None	None	None
United States Treasury Bills, Notes and Bonds	None	None	None
United States Treasury Obligations	None	None	None
Resolution Funding Corp. (REFCORP)	None	None	None
Prefunded Municipal Bonds	None	None	None
United States Government Sponsored Agency Securities	None	None	None
Commercial Paper	None	None	None
Money Market Funds	None	None	None
Certificates of Deposits	None	None	None
Guaranteed Investment Contracts	None	None	None
Bankers Acceptance	1 year	None	None
Repurchase Agreements	30 days	None	None
Local Agency Investment Fund	None	None	None

**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 as necessary to provide the cash flow and liquidity needed for operations.

See independent auditors' report.

YORBA LINDA WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2014

2. CASH AND INVESTMENTS (CONTINUED):

**Disclosures Relating to Interest Rate Risk (Continued):**

Information about the sensitivity of the fair values of the District's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity as of June 30, 2014.

Investment Type	Remaining Maturity (in Months)					Totals
	12 Months or Less	13 to 24 Months	25 to 36 Months	37 to 48 Months	48 to 60 Months	
CalTRUST Investment Pool	\$ 9,395,888	\$ -	\$ -	\$ -	\$ -	\$ 9,395,888
LAIF	5,752,379	-	-	-	-	5,752,379
United States Government						
Sponsored Agency Securities	-	-	-	2,469,325	-	2,469,325
Negotiable Certificates of Deposit	-	249,281	496,776	3,926,409	-	4,672,466
Held by bond trustee:						
United States Government						
Sponsored Agency Securities	-	-	2,115,085	-	-	2,115,085
	<u>\$ 15,148,267</u>	<u>\$ 249,281</u>	<u>\$ 2,611,861</u>	<u>\$ 6,395,734</u>	<u>\$ -</u>	<u>\$ 24,405,143</u>

**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 in the following table are the minimum rating required by (where applicable) the California Government Code, the District's investment policy, or debt agreements, and the actual Standard and Poor's credit rating as of June 30, 2014 for each investment type.

Investment Type	Minimum Legal Rating	Total		
		Total	Not Rated	AA+
CalTRUST Investment Pool	N/A	\$ 9,395,888	\$ 9,394,448	\$ 1,440
LAIF	N/A	5,752,379	5,752,379	-
United States Government				
Sponsored Agency Securities	N/A	2,469,325	-	2,469,325
Negotiable Certificates of Deposit	N/A	4,672,466	4,672,466	-
Held by bond trustee:				
United States Government				
Sponsored Agency Securities	N/A	2,115,085	-	2,115,085
		<u>\$ 24,405,143</u>	<u>\$ 19,819,293</u>	<u>\$ 4,585,850</u>

See independent auditors' report.

YORBA LINDA WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2014

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 with the exception of banker's acceptances, commercial paper and money market funds which are limited to an investment in any one issuer of 5%, 5% and 10%, respectively.

**Custodial Credit Risk:**

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, the District 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, the District will not be able to recover the value of its investment or collateral securities that are in the possession of another party. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF and CalTRUST Investment Pool).

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.

As of June 30, 2014, all of the District's deposits with financial institutions were covered by federal depository insurance limits or were held in collateralized accounts.

**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 prorata 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.

YORBA LINDA WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2014

2. CASH AND INVESTMENTS (CONTINUED):

**Investment in CalTRUST Investment Pool:**

CalTRUST is a Joint Powers Agency Authority created by local public agencies to provide a convenient method for local public agencies to pool their assets for investment purposes. CalTRUST is governed by a Board of Trustees made up of experienced local agency treasurers and investment officers. The Board sets overall policies for the program and selects and supervises the activities of the investment manager and other agents. CalTRUST maintains and administers four pooled accounts within the program: Money Market, Short-Term, Medium-Term and Long-Term. The Money Market account permits daily transactions, with same-day liquidity (provided redemption requests are received by 1:00 p.m. Pacific time), with no limit on the amount of funds that may be invested. The Short-Term account permits an unlimited number of transactions per month (with prior day notice), with no limit on the amount of funds that may be invested. The Medium- and Long-Term accounts permit investments, withdrawals and transfers once per month, with five days advance notice. All CalTRUST accounts comply with the limits and restrictions placed on local agency investments by the California Government Code. CalTRUST imposes a \$250,000 minimum investment; however, there is no maximum limit. 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 percentage interest of the fair value provided by CalTRUST for the CalTRUST accounts (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by CalTRUST.

3. RESTRICTED ASSETS:

Restricted assets were provided by, and are to be used for the following as of June 30, 2014:

<u>Source</u>	<u>Use</u>	<u>2014</u>
Bond proceeds	Repayment of debt	<u>\$ 2,152,324</u>

See independent auditors' report.

YORBA LINDA WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2014

4. CAPITAL ASSETS:

Changes in capital assets for the year ended June 30, 2014 is as follows:

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
Capital assets, not being depreciated:				
Land, mineral and water rights	\$ 347,490	\$ -	\$ (60,071)	\$ 287,419
Construction in progress	<u>5,487,814</u>	<u>5,658,198</u>	<u>(4,536,117)</u>	<u>6,609,895</u>
Total capital assets, not being depreciated	<u>5,835,304</u>	<u>5,658,198</u>	<u>(4,596,188)</u>	<u>6,897,314</u>
Capital assets, being depreciated:				
Source of supply	6,096,155	-	-	6,096,155
Pumping plant	24,303,259	9,438	-	24,312,697
Water treatment plant	3,130,572	-	-	3,130,572
Transmission and distribution plant	209,226,145	4,621,435	-	213,847,580
General plant	<u>21,248,703</u>	<u>284,535</u>	<u>(1,073,446)</u>	<u>20,459,792</u>
Total capital assets, being depreciated	<u>264,004,834</u>	<u>4,915,408</u>	<u>(1,073,446)</u>	<u>267,846,796</u>
Less accumulated depreciation for:				
Source of supply	(1,978,263)	(168,655)	-	(2,146,918)
Pumping plant	(5,733,159)	(906,913)	-	(6,640,072)
Water treatment plant	(1,159,062)	(197,192)	-	(1,356,254)
Transmission and distribution plant	(52,111,243)	(4,880,941)	-	(56,992,184)
General plant	<u>(8,013,607)</u>	<u>(1,161,383)</u>	<u>1,069,185</u>	<u>(8,105,805)</u>
Total accumulated depreciation	<u>(68,995,334)</u>	<u>(7,315,084)</u>	<u>1,069,185</u>	<u>(75,241,233)</u>
Total capital assets, being depreciated, net	<u>195,009,500</u>	<u>(2,399,676)</u>	<u>(4,261)</u>	<u>192,605,563</u>
Total capital assets, net	<u>\$ 200,844,804</u>	<u>\$ 3,258,522</u>	<u>\$ (4,600,449)</u>	<u>\$ 199,502,877</u>

Depreciation expense for the depreciable capital assets was \$7,315,084 in 2014.

The District has been involved in various construction projects throughout the year. The balance of construction in progress at June 30, 2014 is \$6,609,895.

See independent auditors' report.

YORBA LINDA WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2014

5. LONG-TERM LIABILITIES:

Changes in long-term liabilities for the year ended June 30, 2014 were as follows:

	Balance <u>June 30, 2013</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>June 30, 2014</u>	Due Within <u>One Year</u>
Certificates of Participation:					
2008 Revenue Certificates					
of Participation	\$ 32,070,000	\$ -	\$ (705,000)	\$ 31,365,000	\$ 735,000
2012A Refunding Certificates					
of Participation	<u>8,330,000</u>	-	<u>(260,000)</u>	<u>8,070,000</u>	<u>275,000</u>
Subtotal	40,400,000	-	(965,000)	39,435,000	1,010,000
Add (Less):					
2008 Premium	651,695	-	(26,420)	625,275	-
2012A Premium	<u>958,027</u>	-	<u>(47,703)</u>	<u>910,324</u>	-
Total Certificates of Participation	42,009,722	-	(1,039,123)	40,970,599	1,010,000
Line of credit	1,171,131	3,471,525	-	4,642,656	-
Compensated absences	<u>1,000,383</u>	<u>623,735</u>	<u>(576,776)</u>	<u>1,047,342</u>	<u>261,836</u>
 Total	 <u>\$ 44,181,236</u>	 <u>\$ 4,095,260</u>	 <u>\$ (1,615,899)</u>	 <u>\$ 46,660,597</u>	 <u>\$ 1,271,836</u>

**2008 Revenue Certificates of Participation:**

In February 2008, the District issued \$34,995,000 2008 Revenue Certificates of Participation for the purpose of financing the 2008 Capital Improvement Projects. The Certificates bear interest ranging from 4% to 5%, payable semiannually on April 1 and October 1. The Term Certificates of \$10,885,000 are due on October 1, 2038. The legal reserve requirement is \$2,147,096. At June 30, 2014 the reserve fund had a balance of \$2,152,324. At June 30, 2014 the 2008 Certificates outstanding balance was \$31,365,000.

The Certificates are obligations of the Corporation payable solely from payments received from the District pursuant to the Installment Purchase Agreement, by and between the District and the Corporation. The Installment Purchase Agreement requires the District to fix, prescribe and collect rates and charges for the water service which will be at least sufficient to yield during each fiscal year net revenues equal to 110% of the debt service for such fiscal year. For fiscal year 2014, the net revenues equal to 230% of the debt service.

The Certificates of Participation are subject to federal arbitrage regulations. The District calculated no arbitrage rebate due as of March 2013.

See independent auditors' report.

YORBA LINDA WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2014

5. LONG-TERM LIABILITIES (CONTINUED):

**2008 Revenue Certificates of Participation (Continued):**

The annual debt service requirements for the 2008 Revenue Certificates of Participation outstanding at June 30, 2014 are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 735,000	\$ 1,394,596	\$ 2,129,596
2016	765,000	1,364,596	2,129,596
2017	795,000	1,333,396	2,128,396
2018	825,000	1,300,996	2,125,996
2019	860,000	1,267,296	2,127,296
2020 - 2024	4,845,000	5,780,980	10,625,980
2025 - 2029	5,920,000	4,674,645	10,594,645
2030 - 2034	7,335,000	3,211,690	10,546,690
2035 - 2039	<u>9,285,000</u>	<u>1,205,625</u>	<u>10,490,625</u>
Subtotal	<u>\$ 31,365,000</u>	<u>\$ 21,533,820</u>	<u>\$ 52,898,820</u>

**2012A Refunding Certificates of Participation:**

In September 2012, the District issued \$8,330,000 of Revenue Refunding Certificates of Participation, Series 2012A. The 2012A Certificates were issued to provide funds (1) to advance refund all of the currently outstanding District Certificates of Participation Series 2003 and (2) to pay costs of issuance of the 2012A Bonds. The District completed the refunding to reduce its total debt service payments over the next 21 years by over \$1.72 million, resulting in an economic gain (difference between the present value of the old and new debt service payments) of over \$1.32 million. The 2003 Certificates were paid off in October 2012.

The Certificates bear interest ranging from 2% to 5%, payable semiannually on April 1 and October 1.

The Certificates are obligations of the Corporation payable solely from payments received from the District pursuant to the Installment Purchase Agreement, by and between the District and the Corporation. The Installment Purchase Agreement requires the District to fix, prescribe and collect rates and charges for the water service which will be at least sufficient to yield during each fiscal year net revenues equal to 110% of the debt service for such fiscal year. For fiscal year 2014, the net revenues equal to 230% of the debt service.

The Certificates of Participation are subject to federal arbitrage regulations. The District has no arbitrage calculation due until September 2017.

See independent auditors' report.

YORBA LINDA WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2014

5. LONG-TERM LIABILITIES (CONTINUED):

**2012A Refunding Certificates of Participation (Continued):**

The annual debt service requirements for the 2012A Revenue Refunding Certificates of Participation outstanding at June 30, 2014 are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 275,000	\$ 318,912	\$ 593,912
2016	280,000	311,962	591,962
2017	285,000	303,487	588,487
2018	295,000	293,312	588,312
2019	310,000	281,212	591,212
2020 - 2024	1,730,000	1,199,275	2,929,275
2025 - 2029	2,190,000	729,680	2,919,680
2030 - 2033	<u>2,705,000</u>	<u>222,021</u>	<u>2,927,021</u>
Subtotal	<u>\$ 8,070,000</u>	<u>\$ 3,659,861</u>	<u>\$ 11,729,861</u>

**Line of Credit:**

On September 24, 2012, the District established a \$7,000,000 Line of Credit (“Line”) pursuant to a line of credit agreement (“Credit Agreement”) with Wells Fargo Bank, NA. The Line is subordinate to the 2008 Revenue Certificates of Participation and the Revenue Refunding Bonds, Series 2012A and borrowings from it are due and payable by September 30, 2016, though the maturity date can be extended by request of the District and agreement by the bank. The Line has an interest rate equal to One-Month LIBOR + 0.90%, with an annual unused commitment fee of 0.35%. As of June 30, 2014, the District has drawn down \$4,642,656 of the available line and has incurred \$41,845 of interest expense and fees.

The Credit Agreement requires the District to fix, prescribe and collect rates and charges for the water service which will be at least sufficient to yield during each fiscal year net revenues equal to 110% of the debt service for such fiscal year. For fiscal year 2014, the net revenues equal to 230% of the debt service.

**Compensated Absences:**

Compensated absences are comprised of unpaid vacation leave, sick leave and compensating time off which are accrued as earned. (See Note 1n).

See independent auditors’ report.

YORBA LINDA WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2014

6. 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 (medical, dental and vision) insurance for its retired employees and directors, their dependent spouses (if married and covered on the District's plan at time of retirement), or survivors in accordance with Board resolutions. Medical coverage is provided for retired employees who are age 50 or over and who have a minimum of 5 years service with the District. The District pays 100% of the premium for the retiree and two-thirds of the premium amount for eligible dependents accrued at a rate of one year for every three years of service. Two-thirds of the premium amount of medical coverage is provided for the surviving spouse of retired employees for the remaining vested period. The plan does not provide a publicly available financial report.

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 has established a trust to fund future OPEB benefits. For the year ended June 30, 2014, the District made a contribution of \$187,756 to the OPEB trust.

c. Annual OPEB Cost and Net OPEB Asset:

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement 45. 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	\$ 187,756
Interest on net OPEB asset	(10,176)
Adjustment to annual required contribution	<u>11,597</u>
Annual OPEB cost (expense)	189,177
Actual contributions made	<u>(187,756)</u>
Decrease in net OPEB asset	1,421
Net OPEB asset - beginning of year	<u>(140,364)</u>
Net OPEB asset - end of year	<u><u>\$ (138,943)</u></u>

See independent auditors' report.

YORBA LINDA WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2014

6. OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED):

c. Annual OPEB Cost and Net OPEB Asset (Continued):

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation (asset) for the years ended June 30, 2014, 2013 and 2012 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Costs Contributed	Net OPEB Obligation (Asset)
6/30/12	\$ 164,390	194.10%	\$ (32,630)
6/30/13	170,501	163.87%	(140,364)
6/30/14	189,177	99.25%	(138,943)

d. Funded Status and Funding Progress:

As of July 1, 2013, the most recent actuarial valuation date, the plan was 28.36 percent funded. The actuarial accrued liability for benefits was \$1,896,791, and the actuarial value of assets was \$537,913, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,358,878. Assets were valued using a five year smoothing formula with a 20% corridor around market value. The covered payroll (annual payroll of active employees covered by the plan) was \$5,200,000 and the ratio of the UAAL to the covered payroll was 26.13%.

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.

YORBA LINDA WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2014

6. 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, 2013 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included an inflation rate of 2.75% per annum, an investment return of 7.25% per annum, a projected salary increase of 2.75% per annum and a health inflation rate of 4.0% per annum. The District is using the level percentage of payroll method to allocate amortization cost by year and a closed 30 year period for the initial unfunded actuarial accrued liability and an open 30 year amortization for any residual unfunded actuarial accrued liabilities.

7. DEFINED BENEFIT PENSION PLAN:

a. Plan Description:

The District participates in the 2.0% at 55, 2.0% at 60 (effective for new hires after December 22, 2011) and 2.0% at 62 Risk Pools of the California Employees Retirement System (CalPERS), a cost sharing multiple-employer defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute and District ordinance. Copies of CalPERS' annual financial report may be obtained from their Executive Office located at, 400 P Street, Sacramento, CA 95814.

b. Funding Policy:

The contribution rate for plan members in the CalPERS 2.0% at 55, and 2.0% at 60 Risk Pool Retirement Plans is 7% of their annual covered salary. Management, supervisory and confidential employees pay 5% of the required 7% contribution. The District contributes the remaining 2% on their behalf and for their account. Bargaining unit employees pay 4% of the required contribution. The District contributes the remaining 3% on behalf and for their account. As of July 1, 2014, all employees will contribute the full 7% of the employee contribution. Also, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The required employer contribution rates are equal to the annual pension cost (APC) percentage of payroll for fiscal year 2014, 2013 and 2012.

See independent auditors' report.

YORBA LINDA WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2014

7. DEFINED BENEFIT PENSION PLAN:

b. Funding Policy (Continued):

Upon the implementation of the California Employees' Pension Reform Act (PEPRA) on January 1, 2013, the 2.0% at 62 Risk Pool Retirement Plan was created and is open to all new employees who do not qualify for the 2.0% at 60 Risk Pool Retirement Plan. Active plan members are required to contribute 6.25% of their annual covered salary, which is paid by the employees and is equal to the required employer contribution rates. The required employer contribution rates are equal to the annual pension cost (APC) percentage of payroll for fiscal year 2014.

The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS.

For fiscal years 2014, 2013 and 2012 the District's annual employer's contributions for CalPERS were equal to the District's required and actual contributions for each year as follows:

2% at 55 Risk Pool			
<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>APC Percentage of Payroll</u>
6/30/12	\$ 548,528	100.00 %	11.507 %
6/30/13	491,326	100.00 %	10.238 %
6/30/14	492,950	100.00 %	10.781 %

2% at 60 Risk Pool			
<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>APC Percentage of Payroll</u>
6/30/12	\$ 780	100.00 %	8.197 %
6/30/13	12,996	100.00 %	8.311 %
6/30/14	20,632	100.00 %	8.486 %

2% at 62 Risk Pool			
<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>APC Percentage of Payroll</u>
6/30/12	N/A	N/A	N/A
6/30/13	\$ 921	100.00 %	6.250 %
6/30/14	24,261	100.00 %	6.250 %

See independent auditors' report.

YORBA LINDA WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2014

8. NET INVESTMENT IN CAPITAL ASSETS:

The balance of net investment in capital assets consisted of the following as of June 30, 2014:

	<u>2014</u>
Capital assets, net of accumulated depreciation	\$ 199,502,877
Certificates of participation - current	(1,010,000)
Certificates of participation - long-term	(39,960,599)
Unspent debt proceeds	2,152,324
Deferred amount on refunding	<u>474,939</u>
Net investment in capital assets	<u>\$ 161,159,541</u>

9. RISK MANAGEMENT:

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees and natural disasters. In an effort to manage its risk exposure, the District is a member of the Association of California Water Agencies Joint Powers Insurance Authority (the Authority).

The 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, as a member of the Authority, the District participated in the insurance programs as follows:

- General and auto liability, public officials and employee's error and omissions: Total risk financing self-insurance limits of \$2,000,000, combined single limit at \$2,000,000 per occurrence. The Authority purchases additional excess coverage layers: \$58 million for general, auto and public officials liability, which increases the limits on the insurance coverage noted above.
- Employee dishonesty coverage up to \$100,000 per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverages, subject to a \$1,000 deductible per occurrence.
- Property loss is paid at the replacement cost for property on file, if replaced within two years after the loss, otherwise paid on an actual cash value basis. The District's Retrospective Allocation Point (deductible) is \$25,000 per occurrence. The Authority is self-insured for the first \$100,000, and purchases excess coverage up to \$100 million limited to insurable value, subject to a \$1,000 deductible, except for a \$500 deductible on vehicles.

See independent auditors' report.

YORBA LINDA WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2014

9. RISK MANAGEMENT (CONTINUED):

- Boiler and machinery coverage for the replacement cost up to \$100 million per occurrence limited to insurable value, subject to various deductibles depending on the type of equipment.
- Workers' compensation insurance up to California statutory limits for all work related injuries/illnesses covered by California law. The Authority is self-insured to \$2,000,000 and has purchased excess insurance to the statutory limit.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the years ended 2014, 2013 and 2012. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no claims payable as of June 30, 2014, 2013 and 2012.

10. PRE-ANNEXATION AGREEMENT:

In June 2008, the District entered into a pre-annexation agreement with Placentia Yorba Linda Unified School District (PYLUSD) whereby the District intends to provide access to water and sewer service to the PYLUSD for the benefit of a property that PYLUSD wishes to develop for public high school use. Per the agreement, PYLUSD agreed to fund additional District reservoir improvements equal to the cost of constructing additional 450,000 gallons of reservoir storage. The cost for the additional water storage was estimated to be approximately \$1.50 per gallon, resulting in a total approximate cost of \$675,000. PYLUSD paid the District \$32,500 within 30 days of execution of the agreement. The remaining balance is payable over a nine-year period at an annual interest rate of 4%. Annual payments of \$81,704, which include principal and interest, started in the fiscal year ended June 30, 2010. The remaining outstanding balance at June 30, 2014 was \$296,581. As of June 30, 2014 the District reservoir improvements are still in progress. The District has not yet completed its obligation in its entirety and has not earned the rights to the entire amount. Therefore, the outstanding balance is not recorded in the District's books.

See independent auditors' report.

YORBA LINDA WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2014

11. COMMITMENTS AND CONTINGENCIES:

**Construction Contracts:**

The District has a variety of agreements with private parties relating to the installation, improvement or modification of water facilities and distribution systems within its service area. The financing of such construction contracts is being provided primarily from the District's replacement reserves and advances for construction. The District has committed to approximately \$1,118,823 of open construction contracts as of June 30, 2014. Construction contracts include:

<u>Project Name</u>	<u>Total Approved Contract</u>	<u>Construction Costs to Date</u>	<u>Balance to Complete</u>
YL Blvd BPS	\$ 1,581,179	\$ 1,526,484	\$ 54,695
YL Blvd BPS	263,813	221,139	42,674
Well No. 21	863,345	669,712	193,633
Lakeview Grade Separation	250,000	-	250,000
YLWD-Fairmont/Zone 5 BPS Project	549,584	455,440	94,144
2010 Waterline Project - Phase II	61,388	48,230	13,158
DeVille Dr. Waterline Extension	44,539	-	44,539
Pascal & Ludwig	80,200	-	80,200
Yorba Lind High School Park	<u>345,780</u>	<u>-</u>	<u>345,780</u>
	<u>\$ 4,039,828</u>	<u>\$ 2,921,005</u>	<u>\$ 1,118,823</u>

**Litigation:**

In 2008, a firestorm known as the Freeway Complex Fire, the largest wildfire in the County in half a century, resulted in the destruction of several homes served by the District. Certain homeowners sued the District, alleging that the water system failed to provide sufficient water for fire protection purposes. The District's excess liability insurers denied coverage for the Freeway Complex Fire lawsuit.

In June 2012, with no admission of liability, the District and ACWA JPIA paid \$10,000,000 (the "Settlement Amount") as part of a settlement with the plaintiff-homeowners. The District's portion of the settlement amount was \$5,000,000, which was paid from District reserves. As part of the settlement, the lawsuit was referred to a third-party neutral who awarded damages in favor of some plaintiff-homeowners. Under the settlement, the successful plaintiff-homeowners will attempt to recover their awards in a separate lawsuit against the District's excess liability insurers, but will not pursue further recovery from the District.

See independent auditors' report.

YORBA LINDA WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2014

11. COMMITMENTS AND CONTINGENCIES (CONTINUED):

**Litigation (Continued):**

In fiscal year 2013-2014, the District recovered the Settlement Amount of \$5,000,000 from the District's excess liability insurance that is shown as an extraordinary item in the Statement of Revenues, Expenses and Changes in Net Position.

12. SUBSEQUENT EVENTS:

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through September 12, 2014, the date the financial statements were available to be issued.

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**REQUIRED SUPPLEMENTARY INFORMATION**

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

YORBA LINDA 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 Covered Payroll [(a)-(b)]/(c)
03/01/2011	\$ 1,594,667	\$ -	\$ 1,594,667	0.00%	\$ 5,044,860	31.61%
06/30/2011	\$ 1,597,488	\$ 164,291	\$ 1,433,197	10.28%	\$ 4,773,686	30.02%
07/01/2013	\$ 1,896,791	\$ 537,913	\$ 1,358,878	28.36%	\$ 5,200,000	26.13%

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

## **SUPPLEMENTARY INFORMATION**

YORBA LINDA WATER DISTRICT

COMBINING SCHEDULE OF NET POSITION

June 30, 2014

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	Water	Sewer	Totals
CURRENT ASSETS:			
UNRESTRICTED ASSETS:			
Cash and cash equivalents	\$ 17,009,506	\$ 3,102,406	\$ 20,111,912
Investments	6,946,248	195,543	7,141,791
Accounts receivable - water and sewer services	3,791,258	185,397	3,976,655
Accounts receivable - property taxes	22,837	1,760	24,597
Accrued interest receivable	10,336	1,655	11,991
Prepaid expenses and deposits	267,261	-	267,261
Inventory	238,203	-	238,203
<b>TOTAL UNRESTRICTED ASSETS</b>	<b>28,285,649</b>	<b>3,486,761</b>	<b>31,772,410</b>
RESTRICTED ASSETS:			
Cash and cash equivalents	114,334	-	114,334
Investments	2,115,085	-	2,115,085
<b>TOTAL RESTRICTED ASSETS</b>	<b>2,229,419</b>	<b>-</b>	<b>2,229,419</b>
<b>TOTAL CURRENT ASSETS</b>	<b>30,515,068</b>	<b>3,486,761</b>	<b>34,001,829</b>
NONCURRENT ASSETS:			
Capital assets:			
Non-depreciable	6,681,561	215,753	6,897,314
Depreciable, net of accumulated depreciation	153,251,766	39,353,797	192,605,563
Other post-employment benefit (OPEB) asset	129,217	9,726	138,943
<b>TOTAL NONCURRENT ASSETS</b>	<b>160,062,544</b>	<b>39,579,276</b>	<b>199,641,820</b>
<b>TOTAL ASSETS</b>	<b>190,577,612</b>	<b>43,066,037</b>	<b>233,643,649</b>
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred amount on refunding	474,939	-	474,939
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>474,939</b>	<b>-</b>	<b>474,939</b>

See independent auditors' report.

YORBA LINDA WATER DISTRICT

COMBINING SCHEDULE OF NET POSITION  
(CONTINUED)

June 30, 2014

LIABILITIES	Water	Sewer	Totals
<b>CURRENT LIABILITIES:</b>			
<b>PAYABLE FROM UNRESTRICTED CURRENT ASSETS:</b>			
Accounts payable	\$ 4,673,127	\$ 75,214	\$ 4,748,341
Accrued expenses	263,178	-	263,178
Compensated absences payable - current portion	261,836	-	261,836
Customer and construction deposits	270,038	39,696	309,734
Unearned revenue	373,356	1,000	374,356
Accrued interest payable	432,740	-	432,740
<b>TOTAL PAYABLE FROM UNRESTRICTED CURRENT ASSETS</b>	<b>6,274,275</b>	<b>115,910</b>	<b>6,390,185</b>
<b>PAYABLE FROM RESTRICTED ASSETS:</b>			
Retention payable	77,095	-	77,095
Certificates of Participation - current portion	1,010,000	-	1,010,000
<b>TOTAL PAYABLE FROM RESTRICTED ASSETS</b>	<b>1,087,095</b>	<b>-</b>	<b>1,087,095</b>
<b>TOTAL CURRENT LIABILITIES</b>	<b>7,361,370</b>	<b>115,910</b>	<b>7,477,280</b>
<b>LONG-TERM LIABILITIES (LESS CURRENT PORTION):</b>			
Unearned annexation revenue	13,475,678	-	13,475,678
Compensated absences	785,506	-	785,506
Payable on line of credit	4,642,656	-	4,642,656
Certificates of Participation	39,960,599	-	39,960,599
<b>TOTAL LONG-TERM LIABILITIES (LESS CURRENT PORTION)</b>	<b>58,864,439</b>	<b>-</b>	<b>58,864,439</b>
<b>TOTAL LIABILITIES</b>	<b>66,225,809</b>	<b>115,910</b>	<b>66,341,719</b>
<b>NET POSITION:</b>			
Net investment in capital assets	121,589,991	39,569,550	161,159,541
Unrestricted	3,236,751	3,380,577	6,617,328
<b>TOTAL NET POSITION</b>	<b>\$ 124,826,742</b>	<b>\$ 42,950,127</b>	<b>\$ 167,776,869</b>

See independent auditors' report.

YORBA LINDA WATER DISTRICT

COMBINING SCHEDULE OF REVENUES, EXPENSES  
AND CHANGES IN NET POSITION

For the year ended June 30, 2014

	Water	Sewer	Totals
<b>OPERATING REVENUES:</b>			
Water sales	\$ 28,372,296	\$ 3,786	\$ 28,376,082
Sewer revenues	-	1,762,816	1,762,816
Other operating revenues	936,977	110,648	1,047,625
<b>TOTAL OPERATING REVENUES</b>	<b>29,309,273</b>	<b>1,877,250</b>	<b>31,186,523</b>
<b>OPERATING EXPENSES:</b>			
Variable water costs	14,673,144	-	14,673,144
Personnel services	6,728,455	801,026	7,529,481
Supplies and services	3,451,602	397,581	3,849,183
Depreciation	5,982,770	1,332,314	7,315,084
<b>TOTAL OPERATING EXPENSES</b>	<b>30,835,971</b>	<b>2,530,921</b>	<b>33,366,892</b>
<b>OPERATING LOSS</b>	<b>(1,526,698)</b>	<b>(653,671)</b>	<b>(2,180,369)</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>			
Property taxes	1,394,722	-	1,394,722
Investment income	131,833	13,215	145,048
Interest expense	(1,715,429)	-	(1,715,429)
Other nonoperating revenues	1,255,176	70,509	1,325,685
Other nonoperating expenses	(47,948)	-	(47,948)
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>1,018,354</b>	<b>83,724</b>	<b>1,102,078</b>
<b>NET LOSS BEFORE CAPITAL CONTRIBUTIONS AND EXTRAORDINARY ITEM</b>	<b>(508,344)</b>	<b>(569,947)</b>	<b>(1,078,291)</b>
<b>CAPITAL CONTRIBUTIONS</b>	<b>1,235,502</b>	<b>893,077</b>	<b>2,128,579</b>
<b>EXTRAORDINARY ITEM</b>	<b>5,000,000</b>	<b>-</b>	<b>5,000,000</b>
<b>CHANGES IN NET POSITION</b>	<b>5,727,158</b>	<b>323,130</b>	<b>6,050,288</b>
<b>NET POSITION - BEGINNING OF YEAR</b>	<b>119,099,584</b>	<b>42,626,997</b>	<b>161,726,581</b>
<b>NET POSITION - END OF YEAR</b>	<b>\$ 124,826,742</b>	<b>\$ 42,950,127</b>	<b>\$ 167,776,869</b>

See independent auditors' report.

YORBA LINDA WATER DISTRICT  
COMBINING SCHEDULE OF CASH FLOWS

For the year ended June 30, 2014

	<u>Water</u>	<u>Sewer</u>	<u>Totals</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Cash received from customers	\$ 29,319,788	\$ 1,924,026	\$ 31,243,814
Cash payments to employees for salaries and wages	(6,614,029)	(800,927)	(7,414,956)
Cash payments to suppliers of goods and services	(17,905,874)	(339,276)	(18,245,150)
Other revenues	207,144	64,048	271,192
Other expenses	(24,201)	-	(24,201)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>4,982,828</u>	<u>847,871</u>	<u>5,830,699</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Cash received for extraordinary item	5,000,000	-	5,000,000
Proceeds from line of credit	3,471,525	-	3,471,525
Proceeds from property taxes and assessments	1,386,865	-	1,386,865
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<u>9,858,390</u>	<u>-</u>	<u>9,858,390</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Proceeds from annexation fees and capital contributions	153,950	46,992	200,942
Acquisition and construction of capital assets	(3,900,317)	(121,928)	(4,022,245)
Proceeds from sales of capital assets	615,655	-	615,655
Principal paid on long-term liability	(965,000)	-	(965,000)
Interest paid on long-term liability	(1,813,252)	-	(1,813,252)
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(5,908,964)</u>	<u>(74,936)</u>	<u>(5,983,900)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Sale/purchase of investments, net	1,191	2,149	3,340
Interest and investment earnings	117,182	12,211	129,393
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<u>118,373</u>	<u>14,360</u>	<u>132,733</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	9,050,627	787,295	9,837,922
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>8,073,213</u>	<u>2,315,111</u>	<u>10,388,324</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 17,123,840</u>	<u>\$ 3,102,406</u>	<u>\$ 20,226,246</u>

See independent auditors' report.

(Continued)

YORBA LINDA WATER DISTRICT

COMBINING SCHEDULE OF CASH FLOWS  
(CONTINUED)

For the year ended June 30, 2014

	<u>Water</u>	<u>Sewer</u>	<u>Totals</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating loss	\$ (1,526,698)	\$ (653,671)	\$ (2,180,369)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation	5,982,770	1,332,314	7,315,084
Other revenues	207,144	64,048	271,192
Other expenses	(24,201)	-	(24,201)
Changes in operating assets and liabilities:			
(Increase) decrease in assets:			
Accounts receivable	36,631	50,292	86,923
Inventory	2,999	-	2,999
Prepaid expenses and deposits	(7,932)	-	(7,932)
Other post-employment benefits (OPEB) asset	1,322	99	1,421
Increase (decrease) in liabilities:			
Accounts payable and accrued expenses	159,989	60,554	220,543
Accrued salaries and wages	66,145	-	66,145
Accrued compensated absences	46,959	-	46,959
Customer and construction deposits	37,700	(5,765)	31,935
 Total adjustments	 <u>6,509,526</u>	 <u>1,501,542</u>	 <u>8,011,068</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>\$ 4,982,828</u>	 <u>\$ 847,871</u>	 <u>\$ 5,830,699</u>
 CASH AND CASH EQUIVALENTS - FINANCIAL STATEMENT CLASSIFICATION:			
Unrestricted	\$ 17,009,506	\$ 3,102,406	\$ 20,111,912
Restricted	114,334	-	114,334
TOTAL CASH AND CASH EQUIVALENTS - FINANCIAL STATEMENT CLASSIFICATION	<u>\$ 17,123,840</u>	<u>\$ 3,102,406</u>	<u>\$ 20,226,246</u>
 NONCASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES:			
Amortization related to long-term debt	<u>\$ 74,123</u>	<u>\$ -</u>	<u>\$ 74,123</u>
Capital contributions	<u>\$ 1,153,798</u>	<u>\$ 789,860</u>	<u>\$ 1,943,658</u>

See independent auditors' report.

YORBA LINDA WATER DISTRICT

SCHEDULE OF OPERATING EXPENSES BY COST CENTER  
AND NATURE OF EXPENSES FOR WATER AND SEWER

For the year ended June 30, 2014

	Water	Sewer	Totals
<b>OPERATING EXPENSES:</b>			
Variable Water Costs:			
Imported water	\$ 8,543,129	\$ -	\$ 8,543,129
OCWD replenishment assessment	3,313,606	-	3,313,606
Continuous use program	681,471	-	681,471
MWD connection charge	977,043	-	977,043
Fuel and power/pumping	1,157,895	-	1,157,895
	<u>14,673,144</u>	<u>-</u>	<u>14,673,144</u>
Total Variable Water Costs			
Personnel Services:			
Unit salaries	4,799,883	607,856	5,407,739
Fringe benefits	1,857,403	187,689	2,045,092
Director's fees	71,169	5,481	76,650
	<u>6,728,455</u>	<u>801,026</u>	<u>7,529,481</u>
Total Personnel Services			
Supplies and Services:			
Communications	199,790	14,873	214,663
Contractual services	528,149	38,982	567,131
Data processing	146,497	11,605	158,102
District activities	14,931	1,087	16,018
Dues and memberships	62,930	4,601	67,531
Fees and permits	170,327	12,968	183,295
Insurance	249,605	21,512	271,117
Maintenance	317,247	79,991	397,238
Materials	634,634	85,807	720,441
Noncapital equipment	120,883	17,560	138,443
Office expense	34,729	6,736	41,465
Professional services	508,378	24,521	532,899
Training	28,293	5,778	34,071
Travel and conferences	27,639	1,814	29,453
Uncollectible accounts	26,116	3,516	29,632
Utilities	35,103	3,098	38,201
Vehicle expense	346,351	63,132	409,483
	<u>3,451,602</u>	<u>397,581</u>	<u>3,849,183</u>
Total Supplies and Services			
	<u>\$ 24,853,201</u>	<u>\$ 1,198,607</u>	<u>\$ 26,051,808</u>
TOTAL OPERATING EXPENSES			

See independent auditors' report.

YORBA LINDA WATER DISTRICT

SCHEDULE OF CAPITAL ASSETS

For the year ended June 30, 2014

	Water	Sewer	Totals
Land, Mineral and Water Rights:			
Land	\$ 78,558	\$ -	\$ 78,558
Water rights	86,300	-	86,300
Mineral rights	63,650	-	63,650
Land rights and easements	385	58,526	58,911
Total Land, Mineral and Water Rights	<u>228,893</u>	<u>58,526</u>	<u>287,419</u>
Source of Supply:			
Wells	5,531,787	-	5,531,787
MWD connection	564,368	-	564,368
Total Source of Supply	<u>6,096,155</u>	<u>-</u>	<u>6,096,155</u>
Pumping Plant:			
Structures and improvements	12,865,109	-	12,865,109
Equipment	11,016,013	431,575	11,447,588
Total Pumping Plant	<u>23,881,122</u>	<u>431,575</u>	<u>24,312,697</u>
Water Treatment Plant:			
Structures and improvements	1,302,811	-	1,302,811
Equipment	1,827,761	-	1,827,761
Total Water Treatment Plant	<u>3,130,572</u>	<u>-</u>	<u>3,130,572</u>
Transmission and Distribution Plant:			
Mains	75,638,459	46,818,335	122,456,794
Reservoirs and tanks	61,484,568	-	61,484,568
Service and meter installation	5,971,232	2,668,246	8,639,478
Fire hydrants	6,756,453	-	6,756,453
Meters	9,141,505	-	9,141,505
Fire mains	717,746	-	717,746
Structures and improvements	2,599,123	-	2,599,123
Control system	2,018,428	33,485	2,051,913
Total Transmission and Distribution Plant	<u>164,327,514</u>	<u>49,520,066</u>	<u>213,847,580</u>
General Plant:			
Structures and improvements	13,154,085	-	13,154,085
Transportation equipment	1,728,783	1,182,655	2,911,438
Power operated equipment	549,710	-	549,710
Communication equipment	511,269	-	511,269
Computer equipment	1,848,902	238,071	2,086,973
Office furniture	1,098,711	-	1,098,711
Tools, shops and garage equipment	82,715	-	82,715
Other	4,650	-	4,650
Store equipment	60,241	-	60,241
Total General Plant	<u>19,039,066</u>	<u>1,420,726</u>	<u>20,459,792</u>
Construction in Progress	<u>6,452,668</u>	<u>157,227</u>	<u>6,609,895</u>
Total Capital Assets	<u>\$ 223,155,990</u>	<u>\$ 51,588,120</u>	<u>\$ 274,744,110</u>

See independent auditors' report.

**STATISTICAL SECTION**

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YORBA LINDA WATER DISTRICT

DESCRIPTION OF STATISTICAL SECTION CONTENTS

June 30, 2014

This part of the District's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements and the note disclosures say about the government's overall financial health.

Contents:	<u>Pages</u>
<u>Financial Trends</u> these schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.	60
<u>Revenue Capacity</u> these schedules contain information to help the reader assess the District's most significant local revenue source, water sales.	62
<u>Debt Capacity</u> these schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt in the future.	64
<u>Demographic and Economic Information</u> these schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place.	66
<u>Operating Information</u> these schedules contain service and infrastructure data to help the reader understand how the information in the District's financial report relates to the services the District provides and the activities it performs.	68

**Yorba Linda Water District  
Changes in Net Position  
Last Ten Fiscal Years**

<b>Changes in Net Position:</b>	<b>Fiscal Year</b>			
	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Operating Revenues				
Water Sales	\$ 28,376,082	\$ 26,369,940	\$ 24,998,673	\$ 22,686,251
Sewer Revenues	1,762,816	1,762,039	1,785,804	1,274,579
Other Operating Revenues	1,047,625	723,577	848,238	1,035,545
Operating Expenses				
Variable Water Costs	14,673,144	13,509,336	12,275,853	11,268,306
Personnel Services	7,529,481	7,225,729	6,979,088	6,902,995
Supplies and Services	3,849,183	4,222,398	3,811,125	3,686,333
Depreciation	7,315,084	6,884,213	6,595,720	5,279,860
Operating Loss	<u>(2,180,369)</u>	<u>(2,986,120)</u>	<u>(2,029,071)</u>	<u>(2,141,119)</u>
Nonoperating Revenues (Expenses)				
Property Taxes	1,394,722	1,340,916	1,273,855	1,258,769
Investment Income	145,048	137,569	277,137	274,152
Interest Expense	(1,715,429)	(1,781,416)	(1,626,190)	(1,172,503)
Bond Issuance Costs	-	(192,410)	-	-
Other Nonoperating Revenues	1,325,685	588,854	805,654	739,062
Other Nonoperating Expenses	<u>(47,948)</u>	<u>(35,954)</u>	<u>(108,984)</u>	<u>(406,575)</u>
Total Nonoperating Revenues (Expenses)	<u>1,102,078</u>	<u>57,559</u>	<u>621,472</u>	<u>692,905</u>
Net Income (Loss) Before Capital Contributions and Extraordinary Items	(1,078,291)	(2,928,561)	(1,407,599)	(1,448,214)
Capital Contributions	2,128,579	1,174,673	17,214,138	706,319
Extraordinary Items	<u>5,000,000</u>	<u>-</u>	<u>(5,000,000)</u>	<u>-</u>
<b>Changes in Net Position</b>	<u><u>\$ 6,050,288</u></u>	<u><u>\$ (1,753,888)</u></u>	<u><u>\$ 10,806,539</u></u>	<u><u>\$ (741,895)</u></u>
<b>Net Position by Component:</b>				
Net Investment in Capital Assets	\$ 161,494,158	\$ 161,494,158	\$ 161,672,565	\$ 146,235,362
Restricted	-	-	9,598,420	12,620,256
Unrestricted	<u>6,617,328</u>	<u>232,423</u>	<u>(6,228,771)</u>	<u>(4,619,943)</u>
<b>Total Net Assets</b>	<u><u>\$ 168,111,486</u></u>	<u><u>\$ 161,726,581</u></u>	<u><u>\$ 165,042,214</u></u>	<u><u>\$ 154,235,675</u></u>

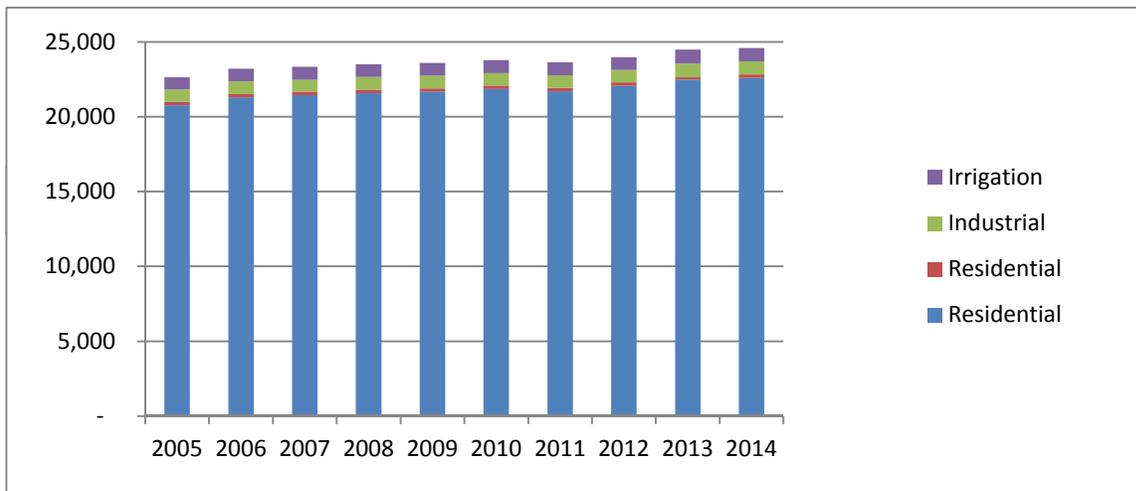
**Fiscal Year**

<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
\$ 21,806,164	\$ 19,626,738	\$ 19,470,109	\$ 18,944,233	\$ 17,017,275	\$ 14,533,021
1,275,980	1,259,723	1,247,907	806,897	778,275	750,771
1,102,143	439,302	380,175	393,285	382,917	427,430
10,688,318	10,859,328	10,516,507	10,703,037	8,930,535	7,920,218
6,677,757	6,498,959	5,751,384	5,276,878	4,635,464	4,294,020
3,576,147	4,151,058	4,361,512	3,395,303	2,877,288	2,699,842
5,153,891	4,167,958	3,572,726	3,445,868	2,923,288	2,578,420
<u>(1,911,826)</u>	<u>(4,351,540)</u>	<u>(3,103,938)</u>	<u>(2,676,671)</u>	<u>(1,188,108)</u>	<u>(1,781,278)</u>
1,269,441	1,283,521	1,263,656	1,186,441	335,075	252,663
244,857	689,108	1,508,193	2,180,067	1,425,663	638,235
(1,170,498)	(1,469,925)	(824,387)	(468,087)	(472,163)	(565,581)
-	-	-	-	-	-
589,201	479,911	270,429	455,067	534,385	416,778
<u>(151,300)</u>	<u>(177,553)</u>	<u>(133,604)</u>	<u>(138,501)</u>	<u>(336,649)</u>	<u>(179,526)</u>
781,701	805,062	2,084,287	3,214,987	1,486,311	562,569
(1,130,125)	(3,546,478)	(1,019,651)	538,316	298,203	(1,218,709)
6,278,135	4,363,527	4,100,051	6,913,095	26,026,524	6,701,629
-	-	-	-	-	-
<u>\$ 5,148,010</u>	<u>\$ 817,049</u>	<u>\$ 3,080,400</u>	<u>\$ 7,451,411</u>	<u>\$ 26,324,727</u>	<u>\$ 5,482,920</u>
\$ 146,877,122	\$ 141,514,024	\$ 139,677,663	\$ 121,317,296	\$ 106,376,683	\$ 84,000,773
15,797,432	14,063,802	14,523,549	23,089,201	22,274,814	23,196,485
<u>(7,696,984)</u>	<u>(6,158,513)</u>	<u>(4,898,647)</u>	<u>1,815,668</u>	<u>10,119,257</u>	<u>5,248,769</u>
<u>\$ 154,977,570</u>	<u>\$ 149,419,313</u>	<u>\$ 149,302,565</u>	<u>\$ 146,222,165</u>	<u>\$ 138,770,754</u>	<u>\$ 112,446,027</u>

**Yorba Linda Water District  
Number of Connections  
Last Ten Fiscal Years**

<b>Fiscal Year</b>	<b>Single Family Residential</b>	<b>Multi-Family Residential</b>	<b>Commercial/Industrial</b>	<b>Irrigation</b>	<b>Direct Rate (Billing Unit)</b>
2005	20,773	217	842	803	\$ 1.48 *
2006	21,300	217	847	838	1.57
2007	21,451	228	792	868	1.57
2008	21,580	228	840	857	1.79
2009	21,672	228	831	855	2.52
2010	21,846	228	837	877	2.52
2011	21,701	231	833	879	2.52
2012	22,064	240	829	846	2.52
2013	22,480	158	908	933	2.64
2014	22,586	230	892	876	2.70

NOTE: \* \$1.48 was approved January 1, 2005



Source: YLWD Billing System

**Yorba Linda Water District  
Ten Largest Customers  
Current and Ten Years Ago**

**FY 2014**

	<u>Customer Name</u>	<u>Business Type</u>	<u>Annual Revenues</u>	<u>% of Total</u>
1	City of Yorba Linda	Government	\$ 1,860,227.00	5.96%
2	Placentia-Yorba Linda USD	Government	267,442.00	0.86%
3	Fairmont Hill Community Assoc.	Homeowners' Assoc.	110,976.00	0.36%
4	Archstone Apartments	Apartment Complex	108,023.00	0.35%
5	Yorba Linda Villages	Homeowners' Assoc.	99,849.00	0.32%
6	The Hills at Yorba Linda	Homeowners' Assoc.	94,025.00	0.30%
7	Lake Park Mobil Home Community	Homeowners' Assoc.	53,825.00	0.17%
8	Woodgate Condominiums	Homeowners' Assoc.	59,401.00	0.19%
9	Kerrigan Ranch II Community Assoc.	Homeowners' Assoc.	59,149.00	0.19%
10	Aspetic Tech	Manufacturing	55,728.00	0.18%
			<u>\$ 2,768,645.00</u>	<u>8.88%</u>

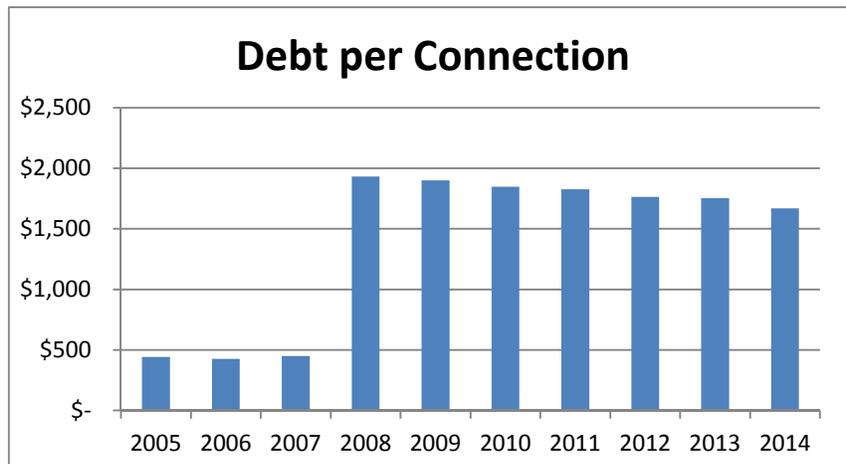
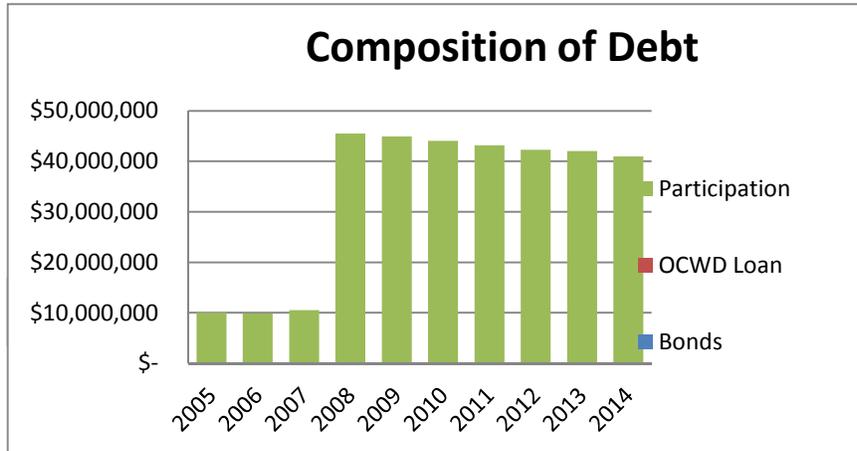
**FY 2004\***

	<u>Customer Name</u>	<u>Business Type</u>	<u>Annual Revenues</u>	<u>% of Total</u>
1	City of Yorba Linda	Government	\$ 1,162,249.51	7.60%
2	Saba Petroleum	Manufacturer	27,162.94	0.18%
3	Tac West Inc	Manufacturer	18,409.96	0.12%
4	St Francis of Assissi	Private School	13,001.84	0.09%
5	Shigemi Muranaka	Nursery Retail	12,303.44	0.08%
7	Sunset Tropicals	Government	9,493.13	0.06%
6	Placentia-Yorba Linda USD	Nursery Retail	9,381.26	0.06%
8	Costco	Warehouse Retail	8,933.78	0.06%
9	Excell Circuits	Manufacturer	8,893.10	0.06%
10	Yorba Linda Country Club	Private Club	8,453.53	0.06%
			<u>\$ 1,278,282.49</u>	<u>8.36%</u>

NOTE: \* Last available data

**Yorba Linda Water District  
Ratio of Outstanding Debt  
Last Ten Fiscal Years**

Fiscal Year	General Obligation Bonds	OCWD Loan	Certificates of Participation	Total			As a Share of Personal Income
				Debt	Per Connection	Per Capita	
2005	\$ -	\$ -	\$ 10,000,078	\$ 10,000,078	\$ 441	\$ 142	0.15%
2006	-	-	9,873,717	9,873,717	426	139	0.14%
2007	-	-	10,540,139	10,540,139	451	148	0.14%
2008	-	-	45,502,080	45,502,080	1,932	637	0.56%
2009	-	-	44,911,092	44,911,092	1,900	628	0.55%
2010	-	-	44,065,104	44,065,104	1,848	611	0.54%
2011	-	-	43,189,117	43,189,117	1,827	604	0.52%
2012	-	-	42,278,129	42,278,129	1,764	583	0.49%
2013	-	-	42,009,722	42,009,722	1,753	648	0.52%
2014	-	-	40,970,599	40,970,599	1,668	554	0.43%



Source: YLWD Audited Financial Statements

**Yorba Linda Water District  
Debt Coverage  
Last Ten Fiscal Years**

<b>Fiscal Year</b>	<b>Revenues</b>	<b>Operating &amp; Maint. Costs</b>	<b>Net Revenues</b>	<b>Debt Service</b>			<b>Coverage Ratio</b>
				<b>Principal</b>	<b>Interest</b>	<b>Total</b>	
2005	\$ 16,178	\$ 14,230	\$ 1,948	\$ 1,760	\$ 299	\$ 2,059	0.95
2006	19,563	16,009	3,554	200	473	673	5.28
2007	23,036	18,703	4,333	205	469	674	6.43
2008	22,822	19,829	2,993	210	919	1,129	2.65
2009	22,514	20,604	1,910	570	2,051	2,621	0.73
2010	24,417	19,928	4,489	825	1,951	2,776	1.62
2011	25,912	20,845	5,067	855	1,949	2,804	1.81
2012	27,818	21,950	5,868	890	1,915	2,805	2.09
2013	27,055	23,790	3,265	925	1,985	2,910	1.12
2014	29,309	24,853	4,456	965	1,813	2,778	1.60

NOTE: Excludes depreciation and debt service payments

**Yorba Linda Water District  
Demographics  
Last Ten Fiscal Years**

YLWD

<u>Year</u>	<u>Population *</u>	<u>City of YL Population</u>	<u>Personal Income</u>	<u>Personal Income per Capita</u>
2005	70,364	65,382	\$ 6,699,301,248	\$ 95,209
2006	70,935	66,797	7,150,485,256	100,803
2007	71,258	67,904	7,623,582,080	106,986
2008	71,428	68,312	8,179,815,504	114,518
2009	71,507	68,852	8,239,633,400	115,228
2010	72,083	69,816	8,095,032,402	112,302
2011	71,520	70,681	8,233,404,978	115,120
2012	72,498	72,706	8,660,636,569	119,460
2013	64,861	65,777	8,040,383,024	123,963
2014	73,990	67,069	9,517,881,804	128,637

County of Orange

<u>Year</u>	<u>Population</u>	<u>Unemployment Rate</u>	<u>Personal Income</u>	<u>Personal Income per Capita</u>
2005	3,047,054	4.3%	\$ 135,070,503	\$ 44,328
2006	3,072,336	3.2%	145,435,581	47,337
2007	3,098,121	3.9%	150,214,330	48,486
2008^	3,121,251	5.2%	157,828,108	50,566
2009^	3,139,017	9.0%	159,710,562	50,879
2010#^	3,170,721	9.8%	150,467,328	47,455
2011#^	3,192,916	8.7%	155,323,766	48,646
2012^	3,182,171	7.9%	160,637,055	50,480
2013^	3,055,792	8.5%	160,072,905	52,383
2014	3,081,804	6.2%	168,966,068	54,827

NOTES: ^ No personal income data available for County of Orange, used State of California data.

# No population data available for County of Orange, used State of California data.

Sources: City of Yorba Linda CAFR  
County of Orange CAFR  
State of California, Employment Development Department  
State of California, Department of Finance

**Yorba Linda Water District  
Ten Largest Employers  
Current and Eight Years Ago**

Employer ^	2014*		2006+	
	Employees	% of Total Labor Force	Employees	% of Total Labor Force
Viasys Respiratory Care, Inc.	389	1.19 %	359	1.02 %
Nobel Biocare USA, Inc.	328	0.93 %	323	0.92 %
Costco Wholesale Corp.	276	0.78 %	204	0.58 %
City of Yorba Linda	194	0.55 %	180	0.51 %
Vons	165	0.47 %	167	0.48 %
Kohl's Inc.	158	0.45 %	145	0.41 %
Best Buy	129	0.37 %	135	0.38 %
Sunrise Retirement Homes	126	0.36 %	120	0.34 %
Office Solutions	92	0.26 %	98	0.28 %
Cobra Engineering	80	0.23 %	0	0.00 %
<b>Total</b>	<b>1,937</b>	<b>5.6 %</b>	<b>1,731</b>	<b>4.9 %</b>

NOTES: \* Most current available data

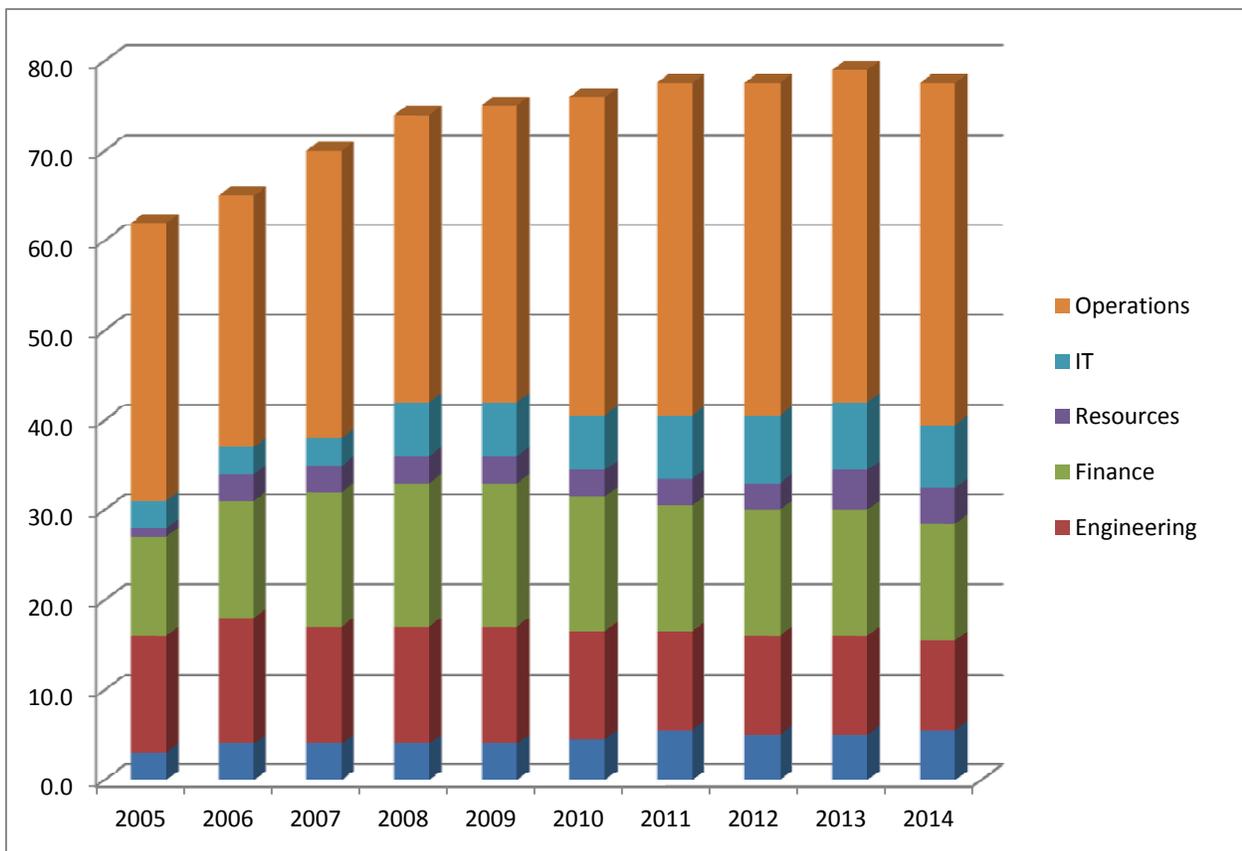
+ Oldest available data

^ The Placentia- Yorba Linda Unified School District has 2,500 employees and serves the entire communities of Yorba Linda and Placentia, and also serves parts of the Cities of Brea, Anaheim and Fullerton. YLWD cannot provide the number of employees working within the boundaries of Yorba Linda.

**Yorba Linda Water District  
Number of Employees  
Last Ten Fiscal Years**

**Full Time Equivalent Employees by Department \***

Fiscal Year	Department						Total
	Administration	Engineering	Finance	Human Resources	IT	Operations	
2005	3.0	13.0	11.0	1.0	3.0	31.0	62.0
2006	4.0	14.0	13.0	3.0	3.0	28.0	65.0
2007	4.0	13.0	15.0	3.0	3.0	32.0	70.0
2008	4.0	13.0	16.0	3.0	6.0	32.0	74.0
2009	4.0	13.0	16.0	3.0	6.0	33.0	75.0
2010	4.5	12.0	15.0	3.0	6.0	35.5	76.0
2011	5.5	11.0	14.0	3.0	7.0	37.0	77.5
2012	5.0	11.0	14.0	3.0	7.5	37.0	77.5
2013	5.0	11.0	14.0	4.5	7.5	37.0	79.0
2014	5.5	10.0	13.0	4.0	7.0	38.0	77.5



NOTE: \*Number of employees in each department are authorized and funded positions.

Source: YLWD Human Resources Department

**Yorba Linda Water District  
Operating and Capacity Indicators  
Last Ten Fiscal Years**

<u>Fiscal Year</u>	<u>Miles of Water Mains Installed*</u>	<u>Yearly Water Production (MG)</u>	<u>Average Production (MGD)</u>	<u>Number of Field Service Calls</u>
2005	3.64	7,042	19.3	1,460
2006	2.52	7,505	20.6	1,484
2007	9.72	8,360	22.9	1,565
2008	9.72	8,027	22.0	1,943
2009	9.72	7,590	20.8	1,674
2010	9.72	6,569	18.0	1,640
2011	2.00	6,282	17.2	1,924
2012	2.02	6,780	18.6	1,693
2013	1.10	7,099	18.6	1,561
2014	0.77	7,329	20.1	1,500

<u>Fiscal Year</u>	<u>Number of Booster Pumps</u>	<u>Capacity by Booster Pump (GPM)</u>	<u>Number of Reservoirs</u>	<u>Capacity by Reservoir (MG)</u>
2005	11	43,025	11	37
2006	11	43,025	11	41
2007	11	43,025	11	41
2008	11	43,025	11	41
2009	11	43,025	12	49
2010	11	43,025	12	49
2011	12	46,525	14	57
2012	12	46,525	14	57
2013	12	46,525	14	57
2014	12	46,525	14	57

MG - Millions of Gallons

MGD - Millions of Gallons per Day

GPM - Gallon per Minute

NOTE: \* Miles of Water Main estimated

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