

**LAGUNA BEACH COUNTY WATER DISTRICT**

**(A COMPONENT UNIT OF THE  
CITY OF LAGUNA BEACH, CALIFORNIA)**

**ANNUAL FINANCIAL REPORT**

**YEAR ENDED JUNE 30, 2021**



**WEALTH ADVISORY | OUTSOURCING  
AUDIT, TAX, AND CONSULTING**

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## INDEPENDENT AUDITORS' REPORT

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

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

We have audited the accompanying financial statements of the Laguna Beach County Water District (the District), a component unit of the City of Laguna Beach, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our 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. 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 basic financial statements referred to above present fairly, in all material respects, the financial position of the Laguna Beach County Water District as of June 30, 2021 and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

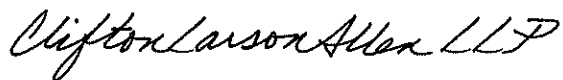
**Other Matter**

*Required Supplementary Information*

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2021, 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 solely 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 effectiveness of the District's 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.



**CliftonLarsonAllen LLP**

Irvine, California  
October 28, 2021

**LAGUNA BEACH COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2021**

This section of the District's annual financial report presents our analysis of the District's financial performance during the fiscal year that ended on June 30, 2021. Please read it in conjunction with the financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

Fiscal Year 2021

- The District's net position increased by \$2,033,504 or 2.99 percent (see Table 1).
- During the year the District's total revenues increased by \$1,666,991 or 10.67 percent, and expenses increased by \$1,033,662 or 7.19 percent (see Table 2).

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

**REQUIRED FINANCIAL STATEMENTS**

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

**LAGUNA BEACH COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2021**

**FINANCIAL ANALYSIS OF THE DISTRICT**

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

**NET POSITION**

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

**TABLE 1  
Condensed Statements of Net Position**

	Fiscal Year 2021	Fiscal Year 2020	Dollar Change
Assets:			
Current and other assets	\$ 23,173,571	\$ 21,310,218	\$ 1,863,353
Capital assets	<u>55,236,479</u>	<u>55,657,488</u>	<u>(421,009)</u>
Total Assets	<u>78,410,050</u>	<u>76,967,706</u>	<u>1,442,344</u>
Deferred Outflows of Resources	<u>1,821,514</u>	<u>1,622,615</u>	<u>198,899</u>
Liabilities:			
Current liabilities	1,621,433	2,740,086	(1,118,653)
Noncurrent liabilities	<u>8,254,814</u>	<u>7,565,328</u>	<u>689,486</u>
Total Liabilities	<u>9,876,247</u>	<u>10,305,414</u>	<u>(429,167)</u>
Deferred Inflows of Resources	<u>394,307</u>	<u>357,401</u>	<u>36,906</u>
Net Position:			
Net investment in capital assets	54,930,695	55,037,488	(106,793)
Unrestricted	<u>15,030,315</u>	<u>12,890,018</u>	<u>2,140,297</u>
Total Net Position	<u>\$ 69,961,010</u>	<u>\$ 67,927,506</u>	<u>\$ 2,033,504</u>

**LAGUNA BEACH COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2021**

**NET POSITION (CONTINUED)**

As can be seen from the Table 1, net position increased by \$2,033,504 from fiscal year 2020 to 2021. Looking more carefully at the table, Total Assets increased \$1,442,344 mainly due to increases in cash and cash equivalents and an increase to investments held by the District, specifically additions to the District's investment portfolio. In addition, total liabilities decreased \$429,167 primarily due to decreased accounts payable and the payoff of the water rights fee payable in fiscal year 2021.

Unrestricted Net Position (those that can be used to finance day-to-day operations) increased by \$2,140,297 due to deposits into, and interest income generated by, the District's investment accounts and Net Investment in Capital Assets decreased by \$106,793.

**TABLE 2  
Condensed Statements of Revenues,  
Expenses and Changes in Net Position**

	Fiscal Year 2021	Fiscal Year 2020	Dollar Change
Revenues:			
Operating revenues	\$ 11,540,749	\$ 11,011,098	\$ 529,651
Nonoperating revenues	5,752,711	4,615,371	1,137,340
Total Revenues	<u>17,293,460</u>	<u>15,626,469</u>	<u>1,666,991</u>
Expenses:			
Depreciation	2,388,942	2,398,197	(9,255)
Other operating expenses	13,014,644	11,971,727	1,042,917
Total Expenses	<u>15,403,586</u>	<u>14,369,924</u>	<u>1,033,662</u>
Net Income Before Capital Contributions	1,889,874	1,256,545	633,329
Capital Contributions	143,630	179,835	(36,205)
Change in Net Position	<u>2,033,504</u>	<u>1,436,380</u>	<u>597,124</u>
Beginning Net Position	<u>67,927,506</u>	<u>66,491,126</u>	<u>1,436,380</u>
Ending Net Position	<u>\$ 69,961,010</u>	<u>\$ 67,927,506</u>	<u>\$ 2,033,504</u>

A closer examination of the source of changes in net position reveals that the District's operating revenues increased by \$529,651 in fiscal year 2021. This increase is largely due to increases in water sales/rate revenues due to increased water consumption compared to fiscal year 2020. Non-operating revenues increased by \$1,133,340 in fiscal year 2021 due to increases in property taxes, lease rental income, and interest income. As presented in Table 2, operating costs (exclusive of depreciation) increased by \$1,042,917 in fiscal year 2021 largely due to increased water purchase costs.

**LAGUNA BEACH COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2021**

**BUDGETARY HIGHLIGHTS**

TABLE 3  
Fiscal Year 2021 Actual vs. Fiscal Year 2021 Budget

	Fiscal Year 2021		
	Actual	Budget	Variance
Revenues:			
Operating revenues	\$ 11,540,749	\$ 11,673,550	\$ (132,801)
Nonoperating revenues	5,752,711	4,039,530	1,713,181
Total Revenues	<u>17,293,460</u>	<u>15,713,080</u>	<u>1,580,380</u>
Expenses:			
Operating Expenses:			
Water purchased	3,956,859	3,093,350	(863,509)
Source of supply	153,468	179,390	25,922
Pumping	773,469	927,370	153,901
Transmission and distribution	3,669,931	3,605,250	(64,681)
Customer service	598,626	750,840	152,214
General and administrative	3,580,921	2,836,530	(744,391)
Other operation and maintenance	281,370	280,690	(680)
Depreciation	2,388,942	-	(2,388,942)
Total Expenses	<u>15,403,586</u>	<u>11,673,420</u>	<u>(3,730,166)</u>
Capital Contributions	<u>143,630</u>	<u>140,000</u>	<u>3,630</u>
Change in Net Position	<u>\$ 2,033,504</u>	<u>\$ 4,179,660</u>	<u>\$ (2,146,156)</u>

As Table 3 shows, the actual change in net position is \$2,146,156 less than the budgeted change in net position. The difference is attributed to the District budget process not including depreciation, the increase in water purchase costs, and the increase in general and administrative costs.



**LAGUNA BEACH COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2021**

**CAPITAL ASSETS AND LONG-TERM LIABILITY ADMINISTRATION**

**CAPITAL ASSETS**

At the end of fiscal year 2021, the District had invested approximately \$103.8 million in a broad range of infrastructure as shown in Table 4.

TABLE 4  
Capital Assets

	Fiscal Year 2021	Fiscal Year 2020	Dollar Change
Capital Assets:			
Land and land rights	\$ 4,517,047	\$ 4,517,179	\$ (132)
Construction in progress	1,875,705	1,333,404	542,301
Source of supply plant	9,869,587	9,886,100	(16,513)
Pumping plant	7,078,986	6,974,353	104,633
Mains	36,872,842	36,435,405	437,437
Reservoirs and Tanks	28,517,610	28,455,807	61,803
Meters and Services	3,691,510	3,691,510	-
Buildings, Structures and Improvements	4,149,252	4,064,756	84,496
Office Furniture, Fixtures & Equipment	1,772,508	1,741,973	30,535
Machinery and Equipment	3,400,349	3,155,008	245,341
Cars & Trucks	2,084,722	1,932,084	152,638
Total Capital Assets	<u>103,830,118</u>	<u>102,187,579</u>	1,642,539
Less accumulated depreciation	<u>(48,593,639)</u>	<u>(46,530,091)</u>	<u>(2,063,548)</u>
Net Capital Assets	<u>\$ 55,236,479</u>	<u>\$ 55,657,488</u>	<u>\$ (421,009)</u>

The District incurred major capital asset additions for the fiscal year 2021 but also removed assets which were no longer in service by the District. The net effect of these changes was a change in accumulated depreciation of \$2,063,548 and a \$1,642,539 increase in District Net Capital Assets.

Additional information on the District's capital assets can be found in Note 4 to the financial statements.

**LONG-TERM LIABILITY ADMINISTRATION**

In September 2020, the District made its final annual water right fee payable of \$620,000 to the Orange County Water District for the District right to produce 2,025 acre feet of ground water annually. The original term and amount of the rights acquisition was five years and \$3,100,000, respectively.

**LAGUNA BEACH COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2021**

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

The District's Board of Directors and management considered many factors when setting the fiscal year 2021 budget, user fees, and charges. The District tries to balance revenues with operating expenses that have increased due to factors such as the availability of water, water purchase costs, water quality requirements, and unfunded benefit liabilities.

CalPERS plan assets value continues to be impacted thus causing employers' contribution rates to fluctuate. For fiscal year 2021, the District's contribution rate included a cost rate of 11.03% for Classic members, plus a \$441,646 payment toward the District's unfunded liability (Classic members), and a cost rate of 7.73% for PEPRA members, plus a \$3,858 payment towards the District's unfunded liability (PEPRA members).

These indicators were taken into consideration when adopting the District's budget for fiscal year 2022 (see Table 5). The budget has been structured to contain costs, but at the same time, continue the District's philosophy of providing the highest level of service.

**TABLE 5  
Fiscal Year 2021 Actual vs. Fiscal Year 2022 Budget**

	Fiscal Year 2021 Actual	Fiscal Year 2022 Budget	Variance
<b>Revenues:</b>			
Operating revenues	\$ 11,540,749	\$ 11,526,950	\$ (13,799)
Nonoperating revenues	5,752,711	4,272,210	(1,480,501)
<b>Total Revenues</b>	<b>17,293,460</b>	<b>15,799,160</b>	<b>(1,494,300)</b>
<b>Expenses:</b>			
Depreciation	2,388,942	-	2,388,942
Other operating expenses	13,014,644	13,532,160	(517,516)
<b>Total Expenses</b>	<b>15,403,586</b>	<b>13,532,160</b>	<b>1,871,426</b>
Capital Contributions	143,630	140,000	(3,630)
Change in Net Position	2,033,504	2,407,000	377,126
Beginning Net Position	67,927,506	69,961,010	2,033,504
Ending Net Position	<b>\$ 69,961,010</b>	<b>\$ 72,368,010</b>	<b>\$ 2,410,630</b>

**LAGUNA BEACH COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2021**

**CONTACTING THE DISTRICT'S FINANCIAL MANAGER**

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

**LAGUNA BEACH COUNTY WATER DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2021**

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 6,024,776
Investments	14,639,778
Accounts Receivable	1,792,144
Interest Receivable	77,516
Taxes Receivable	65,206
Computer Loans to Employees	5,970
Notes Receivable, Current Portion	22,024
Inventory	328,949
Prepaid Expenses	<u>191,473</u>
Total Current Assets	<u>23,147,836</u>

Noncurrent Assets:

Capital Assets:

Capital Assets, Not Being Depreciated	6,392,752
Capital Assets, Being Depreciated, Net	<u>48,843,727</u>
Total Capital Assets, Net	<u>55,236,479</u>

Other Noncurrent Assets:

Notes Receivable	<u>25,735</u>
Total Noncurrent Assets	<u>55,262,214</u>

Total Assets	78,410,050
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**DEFERRED OUTFLOWS OF RESOURCES**

Deferred Amounts from OPEB Plan	79,254
Deferred Amounts from Pension Plan	<u>1,742,260</u>
Total Deferred Outflows Of Resources	<u>1,821,514</u>

*See accompanying Notes to Basic Financial Statements.*

**LAGUNA BEACH COUNTY WATER DISTRICT  
STATEMENT OF NET POSITION (CONTINUED)  
JUNE 30, 2021**

**LIABILITIES**

Current Liabilities:

Accounts Payable	\$ 1,402,378
Accrued Payroll and Related Costs	54,802
Water-Related Deposits	40,685
Tenant Deposit	4,200
Construction Deposits	8,618
Retentions Payable	15,354
Accrued Vacation, Current Portion	<u>95,396</u>
Total Current Liabilities	<u>1,621,433</u>

Noncurrent Liabilities:

Accrued Vacation	286,187
Total Other Postemployment Benefits (OPEB) Liability	878,745
Net Pension Liability	<u>7,089,882</u>
Total Noncurrent Liabilities	<u>8,254,814</u>

Total Liabilities	9,876,247
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Deferred Inflows of Resources

Deferred Amounts from OPEB Plan	55,467
Deferred Amounts from Pension Plan	<u>338,840</u>
Total Deferred Inflows of Resources	<u>394,307</u>

**NET POSITION**

Net Investment in Capital Assets	54,930,695
Unrestricted	<u>15,030,315</u>
Total Net Position	<u><u>\$ 69,961,010</u></u>

**LAGUNA BEACH COUNTY WATER DISTRICT  
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION  
YEAR ENDED JUNE 30, 2021**

<b>OPERATING REVENUES</b>	
Water Sales	\$ 11,397,809
Service Installation Fees	72,540
Fire Service Charges	11,841
Equipment Rental	9,528
Overhead Expense Charged Out	6,826
Penalties	24
Customer Administration Fees	22,327
Miscellaneous Income	19,854
Total Operating Revenues	11,540,749
 <b>OPERATING EXPENSES</b>	
Water Purchased	3,956,859
Source of Supply	153,468
Pumping	773,469
Transmission and Distribution	3,669,931
Customer Service	598,626
General and Administrative	3,580,921
Other Operation and Maintenance	281,370
Depreciation	2,388,942
Total Operating Expenses	15,403,586
 <b>OPERATING LOSS</b>	 (3,862,837)
 <b>NONOPERATING REVENUES (EXPENSES)</b>	
Property Taxes	3,466,727
Rental Income	540,108
Grant Revenues	-
Investment Income	148,362
Gain on Disposal of Capital Assets	1,597,514
Total Nonoperating Revenues (Expenses)	5,752,711
 <b>NET INCOME BEFORE CAPITAL CONTRIBUTIONS</b>	 1,889,874
 <b>CAPITAL CONTRIBUTIONS</b>	 143,630
 <b>CHANGE IN NET POSITION</b>	 2,033,504
Net Position - Beginning of Year	67,927,506
 <b>NET POSITION - END OF YEAR</b>	 \$ 69,961,010

See accompanying Notes to Basic Financial Statements.

**LAGUNA BEACH COUNTY WATER DISTRICT  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2021**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from Customers	\$ 11,671,103
Payments to Suppliers	(8,895,391)
Payments to Employees	(4,178,601)
Net Cash Used by Operating Activities	<u>(1,402,889)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Proceeds from Taxes	3,469,561
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Payments on Ground Water Rights Payable	(620,000)
Proceeds from Disposal of Capital Assets	1,684,695
Acquisition and Construction of Capital Assets	(2,055,114)
Receipts for Water Capacity Fees	143,630
Net Cash Used by Capital and Related Financing Activities	<u>(846,789)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Investment Income	450,513
Rental Income	540,108
Collections on Notes Receivable	36,827
Purchase of Investments	(4,729,046)
Proceeds from Sale or Maturity of Investments	3,703,490
Net Cash Provided by Investing Activities	<u>1,892</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	1,221,775
Cash and Cash Equivalents - Beginning Of Year	<u>4,803,001</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u><u>\$ 6,024,776</u></u>

See accompanying Notes to Basic Financial Statements.

**LAGUNA BEACH COUNTY WATER DISTRICT  
STATEMENT OF CASH FLOWS (CONTINUED)  
YEAR ENDED JUNE 30, 2021**

**RECONCILIATION OF OPERATING LOSS TO NET CASH  
USED BY OPERATING ACTIVITIES**

Operating Loss	\$ (3,862,837)
Depreciation	2,388,942
Changes in Assets, Deferred Outflows of Resources, Liabilities, and Deferred Inflows of Resources:	
(Increase) Decrease in:	
Receivables	108,044
Computer Loans to Employees	(120)
Inventory	(29,885)
Prepaid Expenses	(35,873)
Deferred Outflows of Resources - OPEB	3,565
Deferred Outflows of Resources - Pensions	(202,464)
Increase (Decrease) in:	
Accounts Payable	(547,435)
Accrued Payroll and Related Costs	35,233
Deposits	22,310
Total OPEB Liability	52,937
Net Pension Liability	627,788
Deferred Inflows of Resources - OPEB	(5,762)
Deferred Inflows of Resources - Pensions	42,668
Net Cash Used by Operating Activities	\$ (1,402,889)

*See accompanying Notes to Basic Financial Statements.*



**LAGUNA BEACH COUNTY WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2021**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The Laguna Beach County Water District (the District) was incorporated in 1925 under the County Water District Act of the State Water Code and is the second oldest operating district of its type in California. The District is governed by the publicly elected Laguna Beach City Council members, serving as the District's Board of Directors.

In 1943, the District started purchasing 100% of its water supply from Colorado River water supplied by the Metropolitan Water District of Southern California. The District remained solely dependent on imported water until 2016 when an historic agreement was reached with the Orange County Water District. This agreement re-established the District's right to groundwater in the Santa Ana River Basin and ensures that more than half of the District's water supply is provided locally.

Today, the District's water supply is provided from a combination of local groundwater supplies and imported water from the Colorado River and Northern California. In our efforts to supply a reliable source of water for the community, the District continues to look into other water supply projects as future additional sources of water. The District provides water services to 19,117 people within an 8.5 square mile area of southern Orange County, including portions of the City of Laguna Beach and Crystal Cove State Park.

On January 1, 2004, Emerald Bay Services District was de-annexed from the District's service area. This represents 554 customers or 6% of the services served by the District and accounts for approximately 251 acre-feet of water provided by the District. The District continues to provide water service and administrative support through an agreement with Emerald Bay Services District.

The District's 8,153 service connections serve mostly residential water users. The District sells about 3,170 acre-feet of water annually. This is equal to approximately 1.03 billion gallons delivered on an annual basis. An acre-foot is enough water to cover a football field one-foot deep or serve two average-sized households for a year.

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

**B. Change in Organization**

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

**LAGUNA BEACH COUNTY WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2021**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**B. Change in Organization (Continued)**

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

**C. Method of Accounting**

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

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

When both restricted and unrestricted resources are available, it is the District's policy to use unrestricted resources first and then restricted resources as they are needed. As of June 30, 2021, the District had no restricted resources.

**D. Net Position Classifications**

Net position of the District can be classified into three components defined as follows:

Net Investment in Capital Assets

This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation, and reduced by the outstanding balances of notes or borrowings that are attributable to the acquisition of the asset, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets.

**LAGUNA BEACH COUNTY WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2021**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Net Position Classifications (Continued)**

Restricted Net Position

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

Unrestricted Net Position

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

**E. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position reports 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 a future period and will not be recognized as an outflow of resources (expense/expenditure) until that time. The District has the following items that qualify for reporting in this category:

- Deferred outflows related to the pension plan equal to employer contributions made after the measurement date of the net pension liability.
- Deferred outflows related to the pension and OPEB plans for differences between actual and expected experiences, and changes in assumptions. These amounts are amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pension and medical insurance through the respective plans.
- Deferred outflows related to the pension plan for the changes in employer's proportion. These amounts are amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pension through the plan.
- Deferred outflows related to the pension plan for the net differences between projected and actual earnings on investments of the pension plan's fiduciary net position. These amounts are amortized over five years.

**LAGUNA BEACH COUNTY WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2021**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**E. Deferred Outflows/Inflows of Resources (Continued)**

In addition to liabilities, the statement of net position reports 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 a future period and will not be recognized as an inflow of resources (revenue) until that time. The District has the following items that qualify for reporting in this category:

- Deferred inflows related to the pension plan for differences between the employer's contributions and the employer's proportionate share of contributions. These amounts are amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pension through the plan.
- Deferred inflows from the pension and OPEB plans resulting from changes in assumptions. These amounts are amortized over a closed period equal to the average expected remaining service lives of all employees that are provided with pension and retiree medical insurance through the respective plans.

**F. Investments**

The District has stated investments at fair value, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Changes in fair value that occur during the fiscal year are recognized as part of investment income.

**G. Cash and Cash Equivalents**

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

**H. Accounts Receivable**

The District extends credit to customers in the normal course of operations. Management evaluates all accounts receivable and, if it is determined that they are uncollectible, they are written off as bad debt expense. Charges totaling \$8,125 were made to bad debt expense during the year ended June 30, 2021. Management has evaluated the accounts at year end and believes they are all collectible.

**I. Inventory**

Material inventory is valued at cost using the weighted-average method under the consumption method.

**LAGUNA BEACH COUNTY WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2021**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**J. Capital Assets**

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

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

Source of Supply	30 to 50 Years
Pumping Plant	20 Years
Mains	50 to 100 Years
Reservoirs and Tanks	50 to 75 Years
Meters and Services	20 Years
Buildings, Structures, and Improvements	10 to 40 Years
Office Furniture, Fixture and Equipment	3 to 10 Years
Machinery and Equipment	7 to 15 Years
Cars and Trucks	7 to 15 Years

**K. Property Taxes**

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

The property tax calendar is as follows:

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

**LAGUNA BEACH COUNTY WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2021**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**K. Property Taxes (Continued)**

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

November 12	7%
December 2	13%
December 16	34%
January 13	2%
March 10	5%
April 21	36%
May 19	2%
July 14	1%

**L. Pensions**

For purposes of measuring the net pension liability, deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's California Public Employees' Retirement System (CalPERS) plan (Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**M. Estimates**

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and disclosure of contingent assets and liabilities at the statement of net position date and reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

**NOTE 2 CASH AND INVESTMENTS**

**Cash and Investments**

Cash and investments reported in the statement of net position as of June 30, 2021 are as follows:

Cash and Cash Equivalents	\$ 6,024,776
Investments	14,639,778
Total Cash and Investments	<u>\$ 20,664,554</u>

**LAGUNA BEACH COUNTY WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2021**

**NOTE 2 CASH AND INVESTMENTS (CONTINUED)**

**Cash and Investments (Continued)**

Cash and investments consisted of the following:

Cash on Hand	\$ 500
Deposits with Financial Institutions	1,208,127
Investments	19,455,927
Total Cash and Investments	<u>\$ 20,664,554</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.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment in One Issuer</u>
United States Treasury Obligations	5 Years	100%	None
United States Government Sponsored Agency Securities	5 Years	100%	None
Banker's Acceptances Notes	180 Days	40%	30%
Negotiable Certificates of Deposit	5 Years	30%	None
Certificates of Deposit	5 Years	100%	None
Commercial Paper	270 Days	25%	10%
Medium-Term Corporate Notes	5 Years	30%	None
Money Market Mutual Funds	N/A	20%	10%
Municipal Notes or Bonds	5 Years	20%	\$500,000
Local Agency Investment Fund (LAIF)	N/A	100%	\$75,000,000

N/A - Not Applicable

**Disclosures Relating to Interest Rate Risk**

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

**LAGUNA BEACH COUNTY WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2021**

**NOTE 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 to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity:

Investment Type	Remaining Maturity (in Months)			Total
	12 Months or Less	13 - 24 Months	25 - 60 Months	
Negotiable Certificates of Deposit	\$ 1,208,449	\$ 1,908,991	\$ 2,719,162	\$ 5,836,602
Medium-Term Corporate Notes	-	623,527	4,732,402	5,355,929
Municipal Notes or Bonds	882,530	879,257	1,685,460	3,447,247
Local Agency Investment Fund (LAIF)	4,816,149	-	-	4,816,149
Total	<u>\$ 6,907,128</u>	<u>\$ 3,411,775</u>	<u>\$ 9,137,024</u>	<u>\$ 19,455,927</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 below is the minimum legal rating required by (where applicable) the California Government Code, the District's investment policy, and Nationally Recognized Statistical Rating Organization (Standard & Poor's or Moody's as indicated) credit ratings as of year-end for each investment type.

Investment Type	Total	Minimum Legal Rating	Minimum Legal Rating		
			Aa1 (2)	Other	Unrated
Negotiable Certificates of Deposit (1)	\$ 5,836,602	N/A	\$ -	\$ -	\$ 5,836,602
Medium-Term Corporate Notes	5,355,929	A	-	5,355,929	-
Municipal Notes or Bonds	3,447,247	A	240,104	3,207,143	-
Local Agency Investment Fund (LAIF)	4,816,149	N/A	-	-	4,816,149
Total	<u>\$ 19,455,927</u>		<u>\$ 240,104</u>	<u>\$ 8,563,072</u>	<u>\$ 10,652,751</u>

N/A - Not Applicable

(1) Certificates of deposit are insured by the Federal Deposit Insurance Corporation.

(2) Moody's credit rating.

(3) \$491,655 of investments here is Fitch's credit rating.

The ratings for the "Other" category above are as follows:

Other Ratings:	MTN	MNB
AAA	\$ -	\$ 300,795
AA	714,405	2,906,348
A	4,641,524 (3)	-
Total	<u>\$ 5,355,929</u>	<u>\$ 3,207,143</u>



**LAGUNA BEACH COUNTY WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2021**

**NOTE 2 CASH AND INVESTMENTS (CONTINUED)**

**Concentration of Credit Risk**

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. At June 30, 2021, there were no investments in one issuer that represented 5% or more of total District's investments.

**Custodial Credit Risk**

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit).

The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies.

California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. At June 30, 2021, all of the District's deposits are insured or collateralized.

**Investment in State Investment Pool**

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

**Fair Value Measurements**

The District categorizes its fair value measurement within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are quoted prices for similar assets in active markets, and Level 3 inputs are significant unobservable inputs.

**LAGUNA BEACH COUNTY WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2021**

**NOTE 2 CASH AND INVESTMENTS (CONTINUED)**

**Fair Value Measurements (Continued)**

The District has the following recurring fair value measurements as of June 30, 2021:

	Quoted Prices Level 1	Observable Inputs Level 2	Unobservable Inputs Level 3	Total
Negotiable Certificates of Deposit	\$ -	\$ 5,836,602	\$ -	\$ 5,836,602
Medium-Term Corporate Notes	-	5,355,929	-	5,355,929
Municipal Notes or Bonds	-	3,447,247	-	3,447,247
Total Leveled Investments	<u>\$ -</u>	<u>\$ 14,639,778</u>	<u>\$ -</u>	14,639,778
Local Agency Investment Fund (LAIF)*				4,816,149
Total Investment Portfolio				<u>\$ 19,455,927</u>

\* Not subject to fair value measurement hierarchy.

**NOTE 3 NOTES RECEIVABLE**

**Related-Party Notes Receivable**

On April 23, 2002, the Board of Directors approved a loan to the District's former general manager for purchase of a residence, the location of which is restricted within the parameters listed in the agreement. The loan was funded on August 15, 2002. The loan is payable in biweekly payments, beginning on the first day of October 2002, and amortized over a period of 25 years. Interest rate is variable and every six months after the date of the agreement, the District may increase or decrease the interest rate specified in the agreement, should the monthly average LAIF rate increase or decrease by more than 0.5% from the initial rate at the end of any six month period, the loan shall be adjusted accordingly. The loan is secured by a deed of trust on the residence. At June 30, 2021, the outstanding balance on the note was \$47,759.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 22,024	\$ 1,899	\$ 23,923
2023	22,345	1,579	23,924
2024	3,390	209	3,599
Totals	<u>\$ 47,759</u>	<u>\$ 3,687</u>	<u>\$ 51,446</u>

**LAGUNA BEACH COUNTY WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2021**

**NOTE 4 CAPITAL ASSETS**

The following is a summary of changes in capital assets at June 30, 2021:

	Balance at June 30, 2020	Additions	Deletions/ Transfers	Balance at June 30, 2021
<b>Capital Assets, Not Depreciated:</b>				
Land and Land Rights	\$ 4,517,179	\$ -	\$ (132)	\$ 4,517,047
Construction in Progress	1,333,404	2,040,116	(1,497,815)	1,875,705
Total Capital Assets, Not Depreciated	5,850,583	2,040,116	(1,497,947)	6,392,752
<b>Capital Assets, Being Depreciated:</b>				
Source of Supply Plant	9,886,100	-	(16,513)	9,869,587
Pumping Plant	6,974,353	136,412	(31,779)	7,078,986
Mains	36,435,405	801,590	(364,153)	36,872,842
Reservoirs and Tanks	28,455,807	61,803	-	28,517,610
Meters and Services	3,691,510	-	-	3,691,510
Buildings, Structures and Improvements	4,064,756	84,496	-	4,149,252
Office Furniture, Fixtures & Equipment	1,741,973	30,535	-	1,772,508
Machinery and Equipment	3,155,008	245,341	-	3,400,349
Cars & Trucks	1,932,084	152,638	-	2,084,722
Total Capital Assets, Being Depreciated	96,336,996	1,512,815	(412,445)	97,437,366
<b>Less Accumulated Depreciation for:</b>				
Source of Supply Plant	(6,579,732)	(211,471)	9,576	(6,781,627)
Pumping Plant	(5,526,942)	(147,467)	31,779	(5,642,630)
Mains	(13,098,739)	(739,919)	284,039	(13,554,619)
Reservoirs and Tanks	(13,208,013)	(637,731)	-	(13,845,744)
Meters and Services	(771,144)	(179,659)	-	(950,803)
Buildings, Structures and Improvements	(2,886,812)	(72,613)	-	(2,959,425)
Office Furniture, Fixtures & Equipment	(1,274,940)	(106,485)	-	(1,381,425)
Machinery and Equipment	(1,818,743)	(193,976)	-	(2,012,719)
Cars & Trucks	(1,365,026)	(99,621)	-	(1,464,647)
Total Accumulated Depreciation	(46,530,091)	(2,388,942)	325,394	(48,593,639)
Total Capital Assets, Being Depreciated, Net	49,806,905	(876,127)	(87,051)	48,843,727
Total Capital Assets, Net	<u>\$ 55,657,488</u>	<u>\$ 1,163,989</u>	<u>\$ (1,584,998)</u>	<u>\$ 55,236,479</u>

**NOTE 5 COMPUTER LOANS TO EMPLOYEES**

In March 1999, the District started the Employee Personal Computer Purchase Plan to encourage computer literacy of full-time District employees through the purchase and use of personal computers and software. Any full-time employee in good standing who has completed the probationary period and agrees to the provisions of the plan is eligible for a maximum 24-month noninterest loan of \$2,000. The District has allocated a limit of \$50,000 for this program. Outstanding balances as of June 30, 2021 are \$5,970.

**LAGUNA BEACH COUNTY WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2021**

**NOTE 6 COMPENSATED ABSENCES**

The District has accrued the potential liability for accrued vacation pay totaling \$381,583 as of June 30, 2021. Employees earn vacation and sick leave each month at various rates depending on length of service. Sick leave can be accumulated and rolled over into the retirement plan (see Note 7). The CalPERS's system includes an estimate for this amount in its actuarial calculations. There is no material amount of sick leave accrued that is not provided for by CalPERS calculation; therefore, no sick leave amount has been accrued in the District's financial statements.

**NOTE 7 RETIREMENT PLAN**

**A. General Information about the Pension Plan**

Plan Description

All qualified permanent and probationary employees are eligible to participate in the District's Miscellaneous Employee Pension Plan, which is a cost-sharing multiple-employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the pension plans are established by state statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS's website.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for nonduty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the California Public Employees' Retirement Law.

The pension plan's provisions and benefits in effect for the year ended June 30, 2021, are summarized as follows:

	Miscellaneous	
	Prior to January 1, 2013	On or After January 1, 2013
Hire Date		
Benefit Formula	2% @ 55	2% @ 62
Benefit Vesting Schedule	5 Years of Service	5 Years of Service
Benefit Payments	Monthly for Life	Monthly for Life
Retirement Age	50 - 63	52 - 67
Monthly Benefits, as a percent of Eligible Compensation	1.426% to 2.418%	1.02% to 2.5%
Required Employee Contribution Rates	7.00%	6.75%
Required Employer Contribution Rates:		
Normal Cost Rate	11.031%	7.732%
Payment of Unfunded Liability	\$ 426,956	\$ 3,730

**LAGUNA BEACH COUNTY WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2021**

**NOTE 7 RETIREMENT PLAN (CONTINUED)**

**A. General Information about the Pension Plan (Continued)**

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. District contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contributions requirements are classified as plan member contributions. For the fiscal year ended June 30, 2021, the District made payments totaling \$833,389.

**B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions**

As of June 30, 2021, the District reported \$7,089,882 of liabilities for its proportionate share of the net pension liability of all plans.

The District's net pension liability for the pension plan is measured as the proportionate share of the net pension liability. The net pension liability of the pension plan is measured as of June 30, 2020, and the total pension liability for the pension plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019, rolled forward to June 30, 2020, using standard update procedures. The District's proportionate share of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

The District's proportionate share of the net pension liability for the plan as of the measurement date June 30, 2019 and 2020 was as follows:

	<u>Miscellaneous</u>
Proportion - June 30, 2019	0.06306%
Proportion - June 30, 2020	<u>0.06516%</u>
Change - Increase (Decrease)	<u><u>0.00210%</u></u>

**LAGUNA BEACH COUNTY WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2021**

**NOTE 7 RETIREMENT PLAN (CONTINUED)**

**B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)**

For the year ended June 30, 2021, the District recognized pension expense of \$1,301,383. At June 30, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension Contributions Subsequent to Measurement Date	\$ 833,389	\$ -
Differences Between Actual and Expected Experience	365,363	-
Changes in Assumptions	-	(50,568)
Differences between the Employer's Contributions and the Employer's Proportionate Share of Contributions	-	(288,272)
Changes in Employer's Proportion	332,892	
Net Differences Between Projected and Actual Earnings on Plan Investments	210,616	-
Total	\$ 1,742,260	\$ (338,840)

\$833,389 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ending June 30.	Amount
2022	\$ 97,265
2023	207,973
2024	163,776
2025	101,017
2026	-
Thereafter	-

**LAGUNA BEACH COUNTY WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2021**

**NOTE 7 RETIREMENT PLAN (CONTINUED)**

**B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)**

Actuarial Assumptions

The total pension liability for the June 30, 2020 measurement period was determined by an actuarial valuation as of June 30, 2019, with update procedures used to roll forward the total pension liability to June 30, 2020. The total pension liability was based on the following assumptions:

	<u>Miscellaneous</u>
Valuation Date	June 30, 2019
Measurement Date	June 30, 2020
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Salary Increases	(1)
Mortality Rate Table	(2)
Postretirement Benefit Increase	(3)

(1) Varies by entry age and service.

(2) The mortality table used was developed based on CalPERS-specific data. The probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015. Preretirement and Postretirement mortality rates include 15 years of projected mortality improvement using 90% of Scale MP-2016 published by the Society of Actuaries. For more details on this table, please refer to the CalPERS Experience Study and Review of Actuarial Assumptions report from December 2017 that can be found on the CalPERS website.

(3) The lesser of contract COLA or 2.50% until Purchasing Power Protection Allowance Floor on purchasing power applies, 2.50% thereafter.

Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations, as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short term (first 10 years) and the long term (11+ years) using a building-block approach. Using the expected nominal returns for both short term and long term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

**LAGUNA BEACH COUNTY WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2021**

**NOTE 7 RETIREMENT PLAN (CONTINUED)**

**B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)**

Long-Term Expected Rate of Return (Continued)

The expected real rates of return by asset class are as follows:

Asset Class (a)	Assumed Asset Allocation	Real Return Years 1 - 10 (b)	Real Return Years 11+ (c)
Global Equity	50.00%	4.80%	5.98%
Fixed Income	28.00%	1.00%	2.62%
Inflation Assets	0.00%	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Assets	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%
Total	100.00%		

(a) In the CalPERS CAFR, fixed income is included in Global Debt Securities; liquidity is included in short-term investments; inflation assets are included in both Global Equity Securities, and Global Debt Securities.

(b) An expected inflation of 2.0% used for this period.

(c) An expected inflation of 2.92% used for this period.

Discount Rate

The discount rate used to measure the total pension liability was 7.15%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability for the pension plan, calculated using the discount rate for the pension plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	1% Decrease (6.15%)	Discount Rate (7.15%)	1% Increase (8.15%)
Net Pension Liability (Asset)	\$ 10,916,508	\$ 7,089,882	\$ 3,928,060



**LAGUNA BEACH COUNTY WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2021**

**NOTE 7 RETIREMENT PLAN (CONTINUED)**

**B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)**

Pension Plan's Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

**C. Payable to the Pension Plan**

At June 30, 2021, the District had no outstanding amount of contributions to the pension plan required for the year ended June 30, 2021.

**NOTE 8 OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

**A. General Information about the OPEB Plan**

Plan Description and Benefits Provided

The District, through a single-employer defined benefit plan, provides postemployment health-care benefits. Specifically, the District provides health insurance for its retired employees and their dependent spouses (if married and covered on the District's plan at time of retirement). Medical coverage is provided for retired employees who are in an age range of 60 until the age of 65 is reached and who have served the District on a full-time basis for ten continuous years. The employee must have participated in the District's CalPERS plan during their tenure with the District. The employee must have applied for and be receiving service retirement benefits pursuant to the terms and conditions of the District's CalPERS plan. The District pays 100% of the plan premium for retiree coverage from the date of retirement until the date the retired employee becomes eligible to receive Medicare benefits. Coverage for a retired employee's spouse under the health insurance plan is at the sole cost of the employee. The District's obligation to provide benefits ceases upon death of retiree or Medicare eligibility, whichever is earlier. The District has not established a trust to fund future OPEB benefits.

Employees Covered

As of the June 30, 2021 measurement period, the following current and former employees were covered by the benefit terms under the plan:

Inactive Employees or Beneficiaries	
Currently Receiving Benefit Payments	2
Active Employees	38
Total	<u>40</u>

**LAGUNA BEACH COUNTY WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2021**

**NOTE 8 OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)**

**A. General Information about the OPEB Plan (Continued)**

Contributions

The contribution requirements of plan members and the District are established and may be amended by the District and/or the District's Board of Directors. Currently, contributions are not required from plan members. The District is currently funding this OPEB obligation on a pay-as-you-go basis due to the insignificant amount that the District is paying each year. For the fiscal year ended June 30, 2021, the District's made payments of \$25,620 for retiree health insurance premiums and the estimated implicit subsidy was \$14,364, resulting in total benefit payments of \$39,984.

**B. Total OPEB Liability**

The District's total OPEB liability was measured as of June 30, 2021 and was determined by an actuarial valuation as of June 30, 2020., rolled forward to June 30, 2021, using standard update procedures. A summary of the principal assumptions and methods used to determine the total OPEB liability is shown below.

Actuarial Assumptions

The total OPEB liability in the June 30, 2020, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless other specified:

Valuation Date	June 30, 2020
Measurement Date	June 30, 2021
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	2.16%
Inflation	2.75%
Payroll Increases	2.75% per year annum, in aggregate
Long-Term Expected Rate of Return on Investments	Not applicable, since the District has not established an irrevocable trust for pre-funding the OPEB
Healthcare Cost Trend Rates	4.00% per year
Pre-retirement Turnover	Derived from the most recent CalPERS pension plan valuation
Pre-retirement Mortality	Derived from the most recent CalPERS pension plan valuation
Retirement Rates	Retirements rates under the most recent CalPERS 2.0% @ 55 rates for miscellaneous employees hired before January 1, 2013 and 2.0% @ 62 rates for miscellaneous employees hired on or after January 1, 2013

**LAGUNA BEACH COUNTY WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2021**

**NOTE 8 OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)**

**B. Total OPEB Liability (Continued)**

Actuarial Assumptions (Continued)

The actuarial assumptions used in the June 30, 2020, actuarial valuation were based on a standard set of assumptions the actuary has used for similar valuations, modified as appropriate for the District.

Discount Rate

The discount rate used to measure the total OPEB liability was 2.16%, which is the Bond Buyer 20-Bond GO Index as of measurement date June 30, 2021.

**C. Changes in the Total OPEB Liability**

	Total OPEB Liability
<b>Balance at June 30, 2020</b> (Measurement Date)	\$ 825,808
<b>Changes in the Year:</b>	
Service Cost	69,008
Interest on the Total OPEB Liability	18,521
Differences Between Actual and Expected Experience	3,125
Changes in Assumptions	2,267
Benefit Payments	(39,984)
Net Changes	52,937
<b>Balance at June 30, 2021</b> (Measurement Date)	\$ 878,745

Change of Assumptions

The discount rate changed from 2.20%, at June 30, 2020 measurement date to 2.16% at June 30, 2021, measurement date.

Changes of Benefit Terms

There were no changes of benefit terms.

Subsequent Events

There were no subsequent events that would materially affect the results presented in this disclosure.

**LAGUNA BEACH COUNTY WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2021**

**NOTE 8 OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)**

**C. Changes in the Total OPEB Liability (Continued)**

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current discount rate:

	<u>1% Decrease (1.16%)</u>	<u>Discount Rate (2.16%)</u>	<u>1% Increase (3.16%)</u>
Net OPEB Liability (Asset)	\$ 925,779	\$ 878,745	\$ 828,452

Sensitivity of the Total OPEB Liability to Changes in the Health-Care Cost Trend Rates

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower or 1-percentage point higher than the current healthcare cost trend rates:

	<u>1% Decrease (3%)</u>	<u>Current Healthcare Cost Trend Rates (4%)</u>	<u>1% Increase (5%)</u>
Net OPEB Liability (Asset)	\$ 773,163	\$ 878,745	\$ 1,003,639

**D. OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB**

For the year ended June 30, 2021, the District recognized OPEB expense of \$90,474. At June 30, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Actual and Expected Experience	\$ 63,338	\$ -
Changes in Assumptions	15,916	(55,467)
Total	<u>\$ 79,254</u>	<u>\$ (55,467)</u>

**LAGUNA BEACH COUNTY WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2021**

**NOTE 8 OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)**

**D. OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB  
(Continued)**

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

<u>Year Ending June 30.</u>	<u>Amount</u>
2022	\$ 3,195
2023	3,195
2024	3,195
2025	3,195
2026	3,968
Thereafter	7,039

**NOTE 9 EMPLOYEE-DEFERRED COMPENSATION PLANS**

For the benefit of its employees, the District has established multiple employee-deferred compensation plans in accordance with the Internal Revenue Code Section 457. Funds may be withdrawn by participants upon either termination of employment, retirement, death or an unforeseeable emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes. The District does not make any contributions to these plans.

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of participants. Accordingly, the District is in compliance with this legislation. Therefore, these assets are not the legal property of the District and are not subject to claims of the District's general creditors and, therefore, are excluded from these financial statements.

**NOTE 10 WATER RIGHT FEE PAYABLE**

On January 20, 2016, the District entered into an agreement with the Orange County Water District (OCWD) regarding the District's groundwater production within the OCWD groundwater basin. Pursuant to the agreement, the District obtained the right to annually produce 2,025 acre-feet of groundwater for \$3,100,000. This fee is to be paid in five equal installments of \$620,000 commencing within 10 days of the District extracting groundwater. The final installment was paid during the year ended June 30, 2021.

**LAGUNA BEACH COUNTY WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2021**

**NOTE 11 UNRESTRICTED NET POSITION**

Certain amounts shown as unrestricted net position have been designated per District policy and by Board of Directors (Board) action to be used for specified purposes as listed below:

Board-Designated Amounts:

Operating Reserve Fund	\$ 2,119,115
Self-Insurance/Emergency Reserve Fund	1,483,220
Rate Stabilization Reserve Fund	989,215
Employee Liabilities	421,144
Capital Replacement	<u>6,673,021</u>
Total Board-Designated Amounts	11,685,715
Undesignated	<u>3,344,600</u>
Total Unrestricted Net Position	<u><u>\$ 15,030,315</u></u>

**NOTE 12 RISK MANAGEMENT**

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

At June 30, 2021, the District participated in the self-insurance programs of the Insurance Authority as follows:

Property Loss – The Insurance Authority has pooled self-insurance up to \$100,000 per occurrence and has purchased excess insurance coverage of \$500,000,000 (total insurable value of \$17,505,001). The District has a \$2,500 deductible for buildings, personal property, fixed and mobile equipment, and licensed vehicles, deductibles ranging from \$25,000 to \$50,000 based on type of equipment for boiler and machinery, deductible of 5% of total insurance value for earthquakes and a deductible of \$100,000 for floods.

General Liability – The Insurance Authority has pooled self-insurance up to \$5,000,000 per occurrence and has purchased excess insurance coverage of \$55,000,000.

Auto Liability – The Insurance Authority has pooled self-insurance up to \$5,000,000 per occurrence and has purchased excess insurance coverage of \$55,000,000.

Public Officials' Liability – The Insurance Authority has pooled self-insurance up to \$5,000,000 per occurrence and has purchased excess insurance coverage of \$55,000,000.

Crime Bond – The Insurance Authority has pooled self-insurance up to \$100,000 per occurrence. The District did not purchase excess insurance coverage. The District has a \$1,000 deductible.

**LAGUNA BEACH COUNTY WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2021**

**NOTE 12 RISK MANAGEMENT (CONTINUED)**

At June 30, 2021, the District participated in the self-insurance programs of the Insurance Authority as follows (continued):

Workers' Compensation – The Insurance Authority has pooled self-insurance up to \$2,000,000 and has purchased excess insurance coverage to the statutory limits.

Underground Storage Tank Pollution Liability – The Insurance Authority has pooled self-insurance up to \$500,000 and has purchased excess insurance coverage of \$3,000,000. The District has a \$10,000 deductible.

The District has also purchased \$175,000 of coverage for an employee dishonesty bond from a separate agency.

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

**NOTE 13 OPERATING LEASES**

As of June 30, 2021, the District has an operating lease to rent out District owned office property and other operating leases with various communication companies to rent space on District-occupied property. Rental income from these leases for the year ended June 30, 2021 totaled \$540,108. Future minimum receipts from these operating leases are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2022	\$ 470,984
2023	483,969
2024	498,488
2025	513,442
2026	528,846
Total	<u>\$ 2,495,729</u>

**REQUIRED SUPPLEMENTARY INFORMATION**



**LAGUNA BEACH COUNTY WATER DISTRICT  
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
LAST TEN FISCAL YEARS \***

Fiscal year ended	<u>June 30, 2021</u>	<u>June 30, 2020</u>
Measurement Period Ended	June 30, 2020	June 30, 2019
Plan's Proportion of the Net Pension Liability	0.06516%	0.06306%
Plan's Proportionate Share of the Net Pension Liability	\$ 7,089,882	\$ 6,462,094
Plans' covered payroll	\$ 4,226,806	\$ 4,070,499
Plan's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	167.74%	158.75%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	75.34%	75.26%

**NOTES TO SCHEDULE**

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

From fiscal year June 30, 2015 to June 30, 2016:

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

From fiscal year June 30, 2016 to June 30, 2017:

There were no changes in assumptions.

From fiscal year June 30, 2017 to June 30, 2018:

The discount rate was reduced from 7.65% to 7.15%.

From fiscal year June 30, 2018 to June 30, 2019:

Inflation was reduced from 2.75% to 2.50%.

From fiscal year June 30, 2019 to June 30, 2020:

There were no changes in assumptions.

\* Fiscal year 2015 was the first year of implementation, therefore only seven years are shown.

**LAGUNA BEACH COUNTY WATER DISTRICT  
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (CONTINUED)  
LAST TEN FISCAL YEARS \***

Fiscal year ended	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Measurement Period Ended	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Plan's Proportion of the Net Pension Liability	0.06052%	0.05974%	0.05780%	0.05225%	0.05444%
Plan's Proportionate Share of the Net Pension Liability	\$ 5,832,256	\$ 5,924,716	\$ 5,001,411	\$ 3,586,114	\$ 3,387,510
Plans' covered payroll	\$ 4,015,049	\$ 3,828,081	\$ 3,633,568	\$ 3,403,024	\$ 3,465,886
Plan's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	145.26%	154.77%	137.64%	105.38%	97.74%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	75.26%	73.31%	74.06%	83.35%	83.03%

**NOTES TO SCHEDULE**

**Benefit Changes:**

There were no changes in benefits.

**Changes in Assumptions:**

From fiscal year June 30, 2015 to June 30, 2016:

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

From fiscal year June 30, 2016 to June 30, 2017:

There were no changes in assumptions.

From fiscal year June 30, 2017 to June 30, 2018:

The discount rate was reduced from 7.65% to 7.15%.

From fiscal year June 30, 2018 to June 30, 2019:

Inflation was reduced from 2.75% to 2.50%.

From fiscal year June 30, 2019 to June 30, 2020:

There were no changes in assumptions.

\* Fiscal year 2015 was the first year of implementation, therefore only seven years are shown.

**LAGUNA BEACH COUNTY WATER DISTRICT  
SCHEDULE OF CONTRIBUTIONS – DEFINED BENEFIT PENSION PLAN  
LAST TEN FISCAL YEARS \***

Fiscal Year-End	<u>June 30, 2021</u>	<u>June 30, 2020</u>
Contractually required contribution (actuarially determined)	\$ 833,389	\$ 774,083
Contributions in relation to the actuarially determined contributions	<u>(833,389)</u>	<u>(774,083)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 3,886,589	\$ 4,226,806
Contributions as a percentage of covered payroll	21.44%	18.31%
<b>NOTES TO SCHEDULE</b>		
Valuation Date	6/30/2018	6/30/2017
<b>Methods and Assumptions Used to Determine Contribution Rates:</b>		
Actuarial cost method	Entry age	Entry age
Amortization method	(1)	(1)
Asset valuation method	Market Value	Market Value
Inflation	2.500%	2.625%
Salary increases	(2)	(2)
Investment rate of return	7.00% (3)	7.25% (3)
Retirement age	(4)	(4)
Mortality	(5)	(5)

(1) Level percentage of payroll, closed

(2) Depending on age, service, and type of employment

(3) Net of pension plan investment expense, including inflation

(4) 2% at 55 and 2% at 62

(5) Mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board.

\* Fiscal year 2015 was the first year of implementation, therefore only seven years are shown.

**LAGUNA BEACH COUNTY WATER DISTRICT  
SCHEDULE OF CONTRIBUTIONS – DEFINED BENEFIT PENSION PLAN (CONTINUED)  
LAST TEN FISCAL YEARS \***

Fiscal Year-End	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Contractually required contribution (actuarially determined)	\$ 657,235	\$ 561,814	\$ 502,006	\$ 447,696	\$ 341,282
Contributions in relation to the actuarially determined contributions	<u>(657,235)</u>	<u>(561,814)</u>	<u>(502,006)</u>	<u>(447,696)</u>	<u>(341,282)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 4,070,499	\$ 4,015,049	\$ 3,828,081	\$ 3,633,568	\$ 3,403,024
Contributions as a percentage of covered payroll	16.15%	13.99%	13.11%	12.32%	10.03%

**NOTES TO SCHEDULE**

Valuation Date	6/30/2016	6/30/2015	6/30/2014	6/30/2013	6/30/2012
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**Methods and Assumptions Used to**

**Determine Contribution Rates:**

Actuarial cost method	Entry age	Entry age	Entry age	Entry age	Entry age
Amortization method	(1)	(1)	(1)	(1)	(1)
Asset valuation method	Market Value	Market Value	Market Value	Market Value	15-Year Smoothed Market Method
Inflation	2.75%	2.75%	2.75%	2.75%	2.75%
Salary increases	(2)	(2)	(2)	(2)	(2)
Investment rate of return	7.375% (3)	7.50% (3)	7.50% (3)	7.50% (3)	7.50% (3)
Retirement age	(4)	(4)	(4)	(4)	(4)
Mortality	(5)	(5)	(5)	(5)	(5)

(1) Level percentage of payroll, closed

(2) Depending on age, service, and type of employment

(3) Net of pension plan investment expense, including inflation

(4) 2% at 55 and 2% at 62

(5) Mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board.

\* Fiscal year 2015 was the first year of implementation, therefore only seven years are shown.

**LAGUNA BEACH COUNTY WATER DISTRICT  
SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS  
LAST TEN FISCAL YEARS \***

Fiscal Year-End	<u>6/30/2021</u>	<u>6/30/2020</u>	<u>6/30/2019</u>	<u>6/30/2018</u>
Measurement date	6/30/2020	6/30/2019	6/30/2018	6/30/2017
Total OPEB Liability:				
Service cost	\$ 69,008	\$ 63,361	\$ 33,366	\$ 32,851
Interest on total OPEB liability	18,521	24,783	26,067	25,369
Differences between actual and expected experience	3,125	71,981	-	-
Changes of assumptions	2,267	(62,353)	22,129	(6,184)
Benefit payments, including refunds of employee contributions	(39,984)	(38,579)	(52,703)	(55,173)
Net Change in Total OPEB Liability	<u>52,937</u>	<u>59,193</u>	<u>28,859</u>	<u>(3,137)</u>
Total OPEB Liability - Beginning of Year	825,808	766,615	737,756	740,893
Total OPEB Liability - End of Year (a)	<u>\$ 878,745</u>	<u>\$ 825,808</u>	<u>\$ 766,615</u>	<u>\$ 737,756</u>
Covered - employee payroll	\$ 4,593,105	\$ 4,319,875	\$ 4,278,667	\$ 4,110,465
Total OPEB liability as percentage of covered-employee payroll	19.13%	19.12%	17.92%	17.95%

**NOTES TO SCHEDULE**

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

From fiscal year June 30, 2018 to June 2019:

Discount rate changed from 3.50% to 3.15%.

From fiscal year June 30, 2019 to June 2020:

Discount rate changed from 3.15% to 2.2%. Payroll increase changed from 3.00% to 2.75%.

From fiscal year June 30, 2020 to June 2021:

Discount rate changed from 2.2% to 2.16%.

\* Fiscal year 2018 was the first year of implementation; therefore, only four years are shown.



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Laguna Beach County Water District (the District) as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 28, 2021.

**Internal Control over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

**Purpose of this Report**

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



**CliftonLarsonAllen LLP**

Irvine, California  
October 28, 2021

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