

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

**FINANCIAL STATEMENTS**

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

**FOR THE YEAR ENDED JUNE 30, 2015**

LAGUNA BEACH COUNTY WATER DISTRICT

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## INDEPENDENT AUDITORS' REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the Laguna Beach County Water District (the District) as of and for the year ended June 30, 2015, 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 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.

- 1 -

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*Offices located in Orange and San Diego Counties*

## 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, 2015 and the respective changes in financial position and cash flows 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.

## Emphasis of Matter

As discussed in Notes 1e and 12 to the financial statements, the District adopted Governmental Accounting Standards Board's Statement No. 68, "*Accounting and Financial Reporting for Pensions*" and Statement No. 71, "*Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68*". The adoption of these standards required retrospective application resulting in a \$4,376,284 reduction of previously reported net position. Also, previously reported net position was reduced by \$689,500 to remove a project from the beginning balance of construction-in-progress. Our opinion is not modified with respect to these matters.

## 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 plans and the 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2015, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*White Nelson Dick Evans LLP*

Irvine, California  
December 18, 2015

LAGUNA BEACH COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

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, 2015. Please read it in conjunction with the financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

Fiscal Year 2015

- The District's net position decreased by \$4,082,319 or 6.14 percent.
- During the year the District's total revenues increased by \$480,397 or 3.82 percent, and expenses increased by \$52,403 or 0.44 percent.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

**REQUIRED FINANCIAL STATEMENTS**

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

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

June 30, 2015

**FINANCIAL ANALYSIS OF THE DISTRICT**

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

**NET POSITION**

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

**TABLE 1**  
Condensed Statements of Net Position

	Fiscal Year 2015	Fiscal Year 2014	Dollar Change
<b>Assets:</b>			
Current and other assets	\$ 22,148,718	\$ 21,369,241	\$ 779,477
Capital assets	46,654,817	47,330,082	(675,265)
<b>Total Assets</b>	<b>68,803,535</b>	<b>68,699,323</b>	<b>104,212</b>
Deferred Outflows of Resources	341,282	-	341,282
<b>Liabilities:</b>			
Current liabilities	1,070,134	1,320,901	(250,767)
Noncurrent liabilities	4,369,261	869,153	3,500,108
<b>Total Liabilities</b>	<b>5,439,395</b>	<b>2,190,054</b>	<b>3,249,341</b>
Deferred Inflows of Resources	1,278,472	-	1,278,472
<b>Net Position:</b>			
Net investment in capital assets	46,654,817	47,330,082	(675,265)
Unrestricted	15,772,133	19,179,187	(3,407,054)
<b>Total Net Position</b>	<b>\$ 62,426,950</b>	<b>\$ 66,509,269</b>	<b>\$(4,082,319)</b>

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

June 30, 2015

**NET POSITION (CONTINUED)**

As can be seen from the Table 1, net position decreased by \$4,082,319 from fiscal year 2014 to 2015. Looking more carefully at the table you can see that the change in net position was mainly related to the net pension liability included in noncurrent liabilities, which increased \$3,387,510 in fiscal year 2015.

Unrestricted Net Position (those that can be used to finance day-to-day operations) decreased by \$3,407,054 due to net pension liability obligations.

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

	Fiscal Year 2015	Fiscal Year 2014	Dollar Change
<b>Revenues:</b>			
Operating revenues	\$ 9,457,300	\$ 9,216,801	\$ 240,499
Nonoperating revenues	3,586,469	3,346,571	239,898
<b>Total Revenues</b>	<b>13,043,769</b>	<b>12,563,372</b>	<b>480,397</b>
<b>Expenses:</b>			
Depreciation	1,964,961	1,947,840	17,121
Other operating expenses	10,095,343	10,060,061	35,282
<b>Total Expenses</b>	<b>12,060,304</b>	<b>12,007,901</b>	<b>52,403</b>
<b>Change in Net Position</b>	<b>983,465</b>	<b>555,471</b>	<b>427,994</b>
<b>Beginning Net Position</b>	<b>61,443,485</b>	<b>65,953,798</b>	<b>(4,510,313)</b>
<b>Ending Net Position</b>	<b>\$ 62,426,950</b>	<b>\$ 66,509,269</b>	<b>\$(4,082,319)</b>

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

June 30, 2015

**NET POSITION (CONTINUED)**

A closer examination of the source of changes in net position reveals that the District's operating revenues increased by \$240,499 in fiscal year 2015 due to an increase in water sales and water rates, and refund of prior year expenses. In addition, nonoperating revenues increased by \$239,898 in fiscal year 2015 due to partial grant refunds and increased property tax revenue. Operating costs (exclusive of depreciation) increased by \$35,282 in fiscal year 2015 due to increases in water purchased, water costs, labor and benefits, and write off of recycled water and groundwater studies.

**BUDGETARY HIGHLIGHTS**

**TABLE 3**  
Fiscal Year 2015 Actual vs. Fiscal Year 2015 Budget

	Fiscal Year 2015		
	Actual	Budget	Variance
<b>Revenues:</b>			
Operating revenues	\$ 9,457,300	\$ 8,921,240	\$ 536,060
Nonoperating revenues	3,586,469	4,742,540	(1,156,071)
<b>Total Revenues</b>	<b>13,043,769</b>	<b>13,663,780</b>	<b>(620,011)</b>
<b>Expenses:</b>			
<b>Operating Expenses:</b>			
Water purchased	3,692,669	3,781,820	89,151
Source of supply	97,650	204,770	107,120
Pumping	529,305	581,390	52,085
Transmission and distribution	2,267,530	2,353,250	85,720
Customer service	571,613	618,660	47,047
General and administrative	2,697,638	2,450,530	(247,108)
Other operation and maintenance	238,938	224,420	(14,518)
Depreciation	1,964,961	-	(1,964,961)
<b>Total Expenses</b>	<b>12,060,304</b>	<b>10,214,840</b>	<b>(1,845,464)</b>
<b>Change in Net Position</b>	<b>\$ 983,465</b>	<b>\$ 3,448,940</b>	<b>\$ (2,465,475)</b>

As Table 3 shows, the actual change in net position is \$2,465,475 less than the budgeted change in net position. The difference was primarily due to the fact that the District did not budget for depreciation.



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

June 30, 2015

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**CAPITAL ASSETS**

At the end of fiscal year 2015, the District had invested approximately \$87 million in a broad range of infrastructure as shown in Table 4.

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

	Fiscal Year 2015	Fiscal Year 2014	Dollar Change
Capital Assets:			
Land and land rights	\$ 1,309,155	\$ 1,309,155	\$ -
Source of supply plant	9,817,586	9,803,980	13,606
Pumping plant	6,543,466	6,481,665	61,801
Transmission and distribution system	58,500,338	56,882,697	1,617,641
General plant and equipment	10,435,219	9,786,709	648,510
Construction in progress	654,090	1,705,952	(1,051,862)
Total Capital Assets	<u>87,259,854</u>	<u>85,970,158</u>	<u>1,289,696</u>
Less accumulated depreciation	<u>(40,605,037)</u>	<u>(38,640,076)</u>	<u>(1,964,961)</u>
Net Capital Assets	<u>\$ 46,654,817</u>	<u>\$ 47,330,082</u>	<u>\$ (675,265)</u>

The major capital asset additions for the fiscal year 2015 were pipe system improvements, service line replacements, fire hydrant replacements, valve replacements, El Morro storage and paving, and meter replacements.

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

**DEBT ADMINISTRATION**

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

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

June 30, 2015

**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 2015 budget, user fees, and charges. The District tries to balance revenues with operating expenses that have increased due to factors such as the availability of water, cost-of-water, water quality requirements, staffing and benefits.

The poor economy continues to impact CALPERS plan assets value causing employers contribution rates to fluctuate. For fiscal year 2015, the District's contribution rate increased to 9.72% and the contribution rate for fiscal year 2016 is estimated to increase to 12.40%.

These indicators were taken into consideration when adopting the District's budget for fiscal year 2015. 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 2015 Actual vs. Fiscal Year 2016 Budget

	Fiscal Year 2015 Actual	Fiscal Year 2016 Budget	Variance
Revenues:			
Operating revenues	\$ 9,457,300	\$ 8,804,480	\$ (652,820)
Nonoperating revenues	3,586,469	2,896,830	(689,639)
<b>Total Revenues</b>	<b>13,043,769</b>	<b>11,701,310</b>	<b>(1,342,459)</b>
Expenses:			
Depreciation	1,964,961	-	1,964,961
Other operating expenses	10,095,343	9,824,770	270,573
<b>Total Expenses</b>	<b>12,060,304</b>	<b>9,824,770</b>	<b>2,235,534</b>
<b>Change in Net Position</b>	<b>983,465</b>	<b>1,876,540</b>	<b>893,075</b>
Beginning Net Position	61,443,485	62,426,950	983,465
Ending Net Position	<b>\$ 62,426,950</b>	<b>\$ 64,303,490</b>	<b>\$ 1,876,540</b>

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

June 30, 2015

**CONTACTING THE DISTRICT'S FINANCIAL MANAGER**

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

LAGUNA BEACH COUNTY WATER DISTRICT

STATEMENT OF NET POSITION

June 30, 2015

ASSETS:

CURRENT ASSETS:

Cash and cash equivalents	\$ 4,543,706
Investments	15,347,644
Accounts receivable	1,557,928
Interest receivable	66,024
Taxes receivable	41,248
Computer loans to employees	7,662
Notes receivable, current portion	22,191
Inventory	141,760
Prepaid expenses	190,825

TOTAL CURRENT ASSETS 21,918,988

NONCURRENT ASSETS:

CAPITAL ASSETS:

Capital assets, not being depreciated	1,963,245
Capital assets, being depreciated, net	<u>44,691,572</u>

TOTAL CAPITAL ASSETS, NET 46,654,817

OTHER NONCURRENT ASSETS:

Notes receivable	<u>229,730</u>
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TOTAL NONCURRENT ASSETS 46,884,547

TOTAL ASSETS 68,803,535

DEFERRED OUTFLOWS OF RESOURCES:

Deferred amount from pension plans	<u>341,282</u>
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See accompanying notes to financial statements.

(Continued)

LAGUNA BEACH COUNTY WATER DISTRICT

STATEMENT OF NET POSITION  
(CONTINUED)

June 30, 2015

LIABILITIES:

CURRENT LIABILITIES:

Accounts payable	\$ 838,610
Accrued payroll and related costs	99,221
Water related deposits	7,600
Tenant deposit	4,200
Construction deposit	36,514
Accrued vacation, current portion	83,989

TOTAL CURRENT LIABILITIES 1,070,134

NONCURRENT LIABILITIES:

Accrued vacation	251,969
Other post-employment benefits obligation	729,782
Net pension liability	3,387,510

TOTAL NONCURRENT LIABILITIES 4,369,261

TOTAL LIABILITIES 5,439,395

DEFERRED INFLOWS OF RESOURCES:

Deferred amounts from pension plans	<u>1,278,472</u>
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NET POSITION:

Net investment in capital assets	46,654,817
Unrestricted	<u>15,772,133</u>

TOTAL NET POSITION \$ 62,426,950

See accompanying notes to financial statements.

LAGUNA BEACH COUNTY WATER DISTRICT

STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN NET POSITION

For the year ended June 30, 2015

~~OPERATING REVENUES:~~

Water sales	\$ 9,086,105
Fire service charges	10,853
Equipment rental	21,314
Overhead expense charged out	28,809
Penalties	62,170
Customer administration fees	9,750
Miscellaneous income	215,659
Reserve storage charges	22,640
TOTAL OPERATING REVENUES	<u>9,457,300</u>

OPERATING EXPENSES:

Water purchased	3,692,669
Source of supply	97,650
Pumping	529,305
Transmission and distribution	2,267,530
Customer service	571,613
General and administrative	2,697,638
Other operation and maintenance	238,938
Depreciation	1,964,961
TOTAL OPERATING EXPENSES	<u>12,060,304</u>

OPERATING LOSS (2,603,004)

NONOPERATING REVENUES:

Interest income	721,468
Rental income	403,332
Property taxes	2,461,669
TOTAL NONOPERATING REVENUES	<u>3,586,469</u>

CHANGES IN NET POSITION 983,465

NET POSITION - BEGINNING OF YEAR, AS RESTATED (NOTE 12) 61,443,485

NET POSITION - END OF YEAR \$ 62,426,950

See accompanying notes to financial statements.

LAGUNA BEACH COUNTY WATER DISTRICT

STATEMENT OF CASH FLOWS

For the year ended June 30, 2015

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Receipts from customers	\$ 9,886,933
Payments to suppliers	(6,531,830)
Payments to employees	(3,831,289)
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<u>(476,186)</u>
<b>CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Proceeds from taxes	<u>2,461,968</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Collections on notes receivable	7,971,902
Acquisition and construction of capital assets	(1,979,193)
<b>NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>5,992,709</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Investment income	691,770
Rental income	403,332
Purchase of investments	(11,092,172)
Proceeds from sale or maturity of investments	2,576,165
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<u>(7,420,905)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	557,586
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>3,986,120</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u><u>\$ 4,543,706</u></u>

See accompanying notes to financial statements.

(Continued)

LAGUNA BEACH COUNTY WATER DISTRICT

STATEMENT OF CASH FLOWS  
(CONTINUED)

For the year ended June 30, 2015

RECONCILIATION OF OPERATING LOSS TO

NET CASH USED BY OPERATING ACTIVITIES:

Operating loss	\$ (2,603,004)
Depreciation	1,964,961
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:	
(Increase) decrease in receivables - customer accounts	416,273
(Increase) decrease in inventory	2,397
(Increase) decrease in prepaid expenses	(67,058)
(Increase) decrease in deferred outflows of resources related to pensions	(38,091)
Increase (decrease) in accounts payable	(288,678)
Increase (decrease) in accrued liabilities	54,990
Increase (decrease) in other post-employment benefits liability	82,157
Increase (decrease) in pension liability	(1,291,965)
Increase (decrease) in deferred inflows of resources related to pensions	1,278,472
Increase (decrease) in deposits	13,360
	<u>13,360</u>
 NET CASH USED BY OPERATING ACTIVITIES	 <u><u>\$ (476,186)</u></u>

See accompanying notes to financial statements.



# LAGUNA BEACH COUNTY WATER DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

#### a. Reporting Entity:

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

The District currently serves an area of approximately nine square miles, providing water for municipal and industrial purposes. The 8,082 metered customer services are largely residential and commercial. On January 1, 2004, Emerald Bay Services District was deannexed from the District's service area. This represents approximately 550 customers or 6% of the services served by the District, and accounts for approximately 288 acre feet water provided by the District. The District continues to provide water service and administrative support through an agreement with Emerald Bay Services District.

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

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

#### b. Change in Organization:

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

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2015

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

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b. Change in Organization (Continued):

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

c. Water Rights:

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

d. Method of Accounting:

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

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

When both restricted and unrestricted resources are available, it is the District's policy to use unrestricted resources first, and then restricted resources as they are needed. As of June 30, 2015, the District had no restricted resources.

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2015

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

d. Method of Accounting (Continued):

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

Net Investment in Capital Assets

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

Restricted Net Position

This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. 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. New GASB Accounting Pronouncements:

Current Year Standards

In fiscal year 2014-2015, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 68, "*Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27*" and GASB Statement No. 71 - "*Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68*". These Statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. For defined benefit pension plans, these Statements identify the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2015

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

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e. New GASB Accounting Pronouncements (Continued):

Current Year Standards (Continued)

Accounting changes adopted to conform to the provisions of these statements should be applied retroactively. The result of the implementation of these standards decreased the net position at July 1, 2014 by \$4,376,284.

GASB Statement No. 69 - "*Government Combinations and Disposals of Government Operations*" was required to be implemented in the current fiscal year and did not impact the District.

Pending Accounting Standards

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

- GASB 72 - "*Fair Value Measurement and Application*", effective for periods beginning after June 15, 2015.
- GASB 73 - "*Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*", effective for periods beginning after June 15, 2015 - except for those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for periods beginning after June 15, 2016.
- GASB 74 - "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*", effective for periods beginning after June 15, 2016.
- GASB 75 - "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*", effective for periods beginning after June 15, 2017.
- GASB 76 - "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*", effective for periods beginning after June 15, 2015.

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2015

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

f. Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has one item that qualifies for reporting in this category. That item is the deferred outflow related to pensions. This amount is equal to employer contributions made after the measurement date of the net pension liability.

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 has two items that qualify for reporting in this category. The first item is a deferred inflow related to pensions resulting from the difference in projected and actual earnings on investments of the pension plan fiduciary net position. This amount is amortized over five years. The second item is a deferred outflow related to pensions for the changes in proportion and differences between employer contributions and the proportionate share of contributions. This amount is amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions through the Plans determined as of June 30, 2013 (the beginning of the measurement period ended June 30, 2014), which is 3.8 years.

g. Investments:

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

h. Cash and Cash Equivalents:

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

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2015

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

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i. Accounts Receivable:

The District extends credit to customers in the normal course of operations. Management has evaluated the accounts and believes they are all collectible. Management evaluates all accounts receivable and, if it is determined that they are uncollectible, they are written off as bad debt expense. A charge of \$9,401 was made to bad debt expense for the fiscal year ended June 30, 2015.

j. Inventory:

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

k. Capital Assets:

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

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

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

l. Property Taxes:

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

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2015

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

l. Property Taxes (Continued):

The property tax calendar is as follows:

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

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

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

m. Pensions:

For purposes of measuring the net pension liability and 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) plans (Plans) and additions to/deductions from the Plans' 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.

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2015

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

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n. Estimates:

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

2. CASH AND INVESTMENTS:

Cash and Investments

Cash and investments reported in the statement of net position as of June 30, 2015 are as follows:

Cash and cash equivalents	\$ 4,543,706
Investments	<u>15,347,644</u>
Total cash and investments	<u>\$ 19,891,350</u>

Cash and investments consisted of the following:

Cash on hand	\$ 500
Deposits with financial institutions	269,931
Investments	<u>19,620,919</u>
Total cash and investments	<u>\$ 19,891,350</u>



LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2015

2. CASH AND INVESTMENTS (CONTINUED):

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.

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

N/A- Not Applicable

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2015

2. CASH AND INVESTMENTS (CONTINUED):

Disclosures Relating to Interest Rate Risk

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

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

<u>Investment Type</u>	<u>Remaining Maturity (in Months)</u>			<u>Total</u>
	<u>12 Months or Less</u>	<u>13 - 24 Months</u>	<u>25 - 60 Months</u>	
United States Government Sponsored				
Agency Securities	\$ -	\$ -	\$ 5,938,913	\$ 5,938,913
Certificates of Deposit	-	100,000	-	100,000
Negotiable Certificates of Deposit	-	-	5,576,180	5,576,180
Medium-Term Corporate Notes	253,795	100,976	2,090,862	2,445,633
Municipal Notes or Bonds	100,943	407,243	778,732	1,286,918
Local Agency Investment Fund	<u>4,273,275</u>	<u>-</u>	<u>-</u>	<u>4,273,275</u>
	<u>\$ 4,628,013</u>	<u>\$ 608,219</u>	<u>\$ 14,384,687</u>	<u>\$ 19,620,919</u>

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2015

2. CASH AND INVESTMENTS (CONTINUED):

Disclosures Relating to Credit Risk

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

Investment Type	Total	Minimum Legal Rating	AAA	Other	Unrated	Not
						Required to be Rated
United States Government Sponsored						
Agency Securities	\$ 5,938,913	N/A	\$ 5,938,913	\$ -	\$ -	\$ -
Certificates of Deposit (1)	100,000	N/A	-	-	-	100,000
Negotiable Certificates of Deposit	5,576,180	N/A	-	-	5,576,180	-
Medium-term Corporate Notes (MTN)	2,445,633	A	-	2,445,633	-	-
Municipal Notes or Bonds (MNB)	1,286,918	A	441,386	845,532	-	-
Local Agency Investment Fund	<u>4,273,275</u>	N/A	-	-	<u>4,273,275</u>	-
Total	<u>\$ 19,620,919</u>		<u>\$ 6,380,299</u>	<u>\$ 3,291,165</u>	<u>\$ 9,849,455</u>	<u>\$ 100,000</u>

N/A - Not Applicable

(1) Certificates of deposit are insured by FDIC.

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

Other:	MTN	MNB
AA-	\$ 349,770	\$ 255,157
Aa3 (Moody's Credit Rating)	-	102,060
A+	599,179	321,885
A	1,269,716	-
AA	-	166,430
BBB+	<u>226,968</u>	<u>-</u>
	<u>\$2,445,633</u>	<u>\$ 845,532</u>

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2015

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, 2015, the investments in one issuer that represented 5% or more of total District's investments are as follows:

United States Governmental Sponsored Agency Securities:

Federal Home Loan Mortgage Corporation	\$ 1,750,833
Federal Home Loan Bank	\$ 2,245,835
Federal National Mortgage Association	\$ 1,691,770

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, 2015, 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.

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2015

3. NOTES RECEIVABLE:

Related Party Notes Receivable

On April 23, 2002, the Board of Directors approved a loan to the District's general manager for purchase of a residence, the location of which is restricted within the parameters listed in the agreement. The loan was funded on August 15, 2002. The loan is payable in biweekly payments, beginning on the 1<sup>st</sup> day of October 2002 and amortized over a period of 25 years. Interest rate is variable and is payable biweekly at rates of 0.25% over Local Agency Investment Fund (LAIF) rate with a cap rate of 7%. The loan is secured by a deed of trust on the residence. At June 30, 2015, the outstanding balance on the note was \$251,921.

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

Year Ending June 30,	Principal	Interest	Total
2016	\$ 22,191	\$ 3,726	\$ 25,917
2017	22,485	3,432	25,917
2018	22,782	3,135	25,917
2019	23,085	2,832	25,917
2020	24,388	2,526	26,914
2021 - 2025	121,717	7,869	129,586
2026	15,273	407	15,680
	<u>\$ 251,921</u>	<u>\$ 23,927</u>	<u>\$ 275,848</u>

Promissory Notes Receivable

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

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2015

3. NOTES RECEIVABLE (CONTINUED):

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Promissory Notes Receivable (Continued)

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

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

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

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2015

4. CAPITAL ASSETS:

The following is a summary of changes in capital assets at June 30, 2015.

	<u>Balance</u> <u>July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2015</u>
Capital assets, not being depreciated:				
Land and land rights	\$ 1,309,155	\$ -	\$ -	\$ 1,309,155
Construction in progress (1)	<u>1,016,452</u>	<u>481,133</u>	<u>(843,495)</u>	<u>654,090</u>
Total capital assets, not being depreciated	<u>2,325,607</u>	<u>481,133</u>	<u>(843,495)</u>	<u>1,963,245</u>
Capital assets, being depreciated:				
Source of supply plant	9,803,980	13,606	-	9,817,586
Pumping plant	6,481,665	61,801	-	6,543,466
Transmission and distribution system	56,882,697	1,617,641	-	58,500,338
General plant and equipment	<u>9,786,709</u>	<u>648,510</u>	<u>-</u>	<u>10,435,219</u>
Total capital assets being depreciated	<u>82,955,051</u>	<u>2,341,558</u>	<u>-</u>	<u>85,296,609</u>
Less accumulated depreciation:				
Source of supply plant	(5,293,158)	(224,434)	-	(5,517,592)
Pumping plant	(4,433,527)	(227,090)	-	(4,660,617)
Transmission and distribution system	(20,873,993)	(1,201,943)	-	(22,075,936)
General plant and equipment	<u>(8,039,398)</u>	<u>(311,494)</u>	<u>-</u>	<u>(8,350,892)</u>
Total accumulated depreciation	<u>(38,640,076)</u>	<u>(1,964,961)</u>	<u>-</u>	<u>(40,605,037)</u>
Total capital assets being depreciated, net	<u>44,314,975</u>	<u>376,597</u>	<u>-</u>	<u>44,691,572</u>
Total capital assets, net	<u>\$ 46,640,582</u>	<u>\$ 857,730</u>	<u>\$ (843,495)</u>	<u>\$ 46,654,817</u>

(1) Beginning balance of construction in progress has been restated by \$689,500 to remove costs of a project that will not be completed as originally intended.

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2015

5. COMPUTER LOANS TO EMPLOYEES:

In March 1999, the District started the Employee Personal Computer Purchase Plan to encourage computer literacy of full-time District employees through the purchase and use of personal computers and software. Any full-time employee in good standing who has completed the probationary period and agrees to the provisions of the plan is eligible for a maximum 24-month noninterest loan of \$2,000. The District has allocated a limit of \$50,000 for this program. As of June 30, 2015, there were ten participants in the plan. Outstanding balances as of June 30, 2015 are \$7,662.

6. COMPENSATED ABSENCES:

In accordance with Governmental Accounting Standards Board Codification C60.110, "Accounting for Compensated Absences" requirements, the District has accrued the potential liability for accrued vacation pay totaling \$335,959 as of June 30, 2015. Employees earn vacation and sick leave each month at various rates depending on length of service. Sick leave can be accumulated and rolled over into the retirement plan (see Note 7). The CalPERS system includes an estimate for this amount in its actuarial calculations. There is no material amount of sick leave accrued that is not provided for by the CalPERS calculation, therefore, no sick leave amount has been accrued in the District's financial statements.

7. EMPLOYEE'S RETIREMENT PLANS:

a. General Information about the Pension Plans:

Plan Descriptions

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



LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2015

7. EMPLOYEE'S RETIREMENT PLANS (CONTINUED):

a. General Information about the Pension Plans (Continued):

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 non-duty 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 Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at June 30, 2015, are summarized as follows:

	<u>Miscellaneous</u>	
	<u>Prior to January 1, 2013</u>	<u>On or After January 1, 2013</u>
Hire date		
Benefit formula	2.0%@55	2%@62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50-55	52-67
Monthly benefits, as a % of eligible compensation	1.4% to 2.4%	1.0% to 2.5%
Required employee contribution rates	7.00%	6.25%
Required employer contribution rates	9.719%	6.25%

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. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. 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.

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2015

7. EMPLOYEE'S RETIREMENT PLANS (CONTINUED):

b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions:

As of June 30, 2015, the District reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous	<u>\$ 3,387,510</u>

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2014, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 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 plans relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for each Plan as of June 30, 2013 and 2014 was as follows:

	<u>Miscellaneous</u>
Proportion - June 30, 2013	0.14281%
Proportion - June 30, 2014	0.13706%
Change - Increase (Decrease)	(0.00575)%

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2015

7. EMPLOYEE'S RETIREMENT PLANS (CONTINUED):

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

For the year ended June 30, 2015, the District recognized pension expense of \$289,698. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 341,282	\$ -
Differences between actual and expected experience	-	-
Change in assumptions	-	-
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	-	(99,614)
Net differences between projected and actual earnings on plan investments	<u>-</u>	<u>(1,178,858)</u>
Total	<u>\$ 341,282</u>	<u>\$ (1,278,472)</u>

\$341,282 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 ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Year Ending June 30.</u>	<u>Amount</u>
2016	\$ (330,291)
2017	(330,291)
2018	(323,175)
2019	(294,715)

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2015

7. EMPLOYEE'S RETIREMENT PLANS (CONTINUED):

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

Actuarial Assumptions

The total pension liabilities in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions:

	<u>Miscellaneous</u>
Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.5%
Inflation	2.75%
Payroll Growth	3.0%
Projected Salary Increase	3.3% - 14.2% (1)
Investment Rate of Return	7.5% (2)
Mortality	(3)

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

(2) Net of pension plan investment expenses, including inflation

(3) The probabilities of mortality are derived using CalPERS' membership data for all funds. The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

Discount Rate

The discount rate used to measure the total pension liability was 7.50% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50% will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2015

7. EMPLOYEE'S RETIREMENT PLANS (CONTINUED):

- b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued):

Discount Rate (Continued)

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65%. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of 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 (11-60 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 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 equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2015

7. EMPLOYEE'S RETIREMENT PLANS (CONTINUED):

- b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued):

Discount Rate (Continued)

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Equity	47.0 %	5.25 %	5.71 %
Global Fixed Income	19.0 %	0.99 %	2.43 %
Inflation Sensitive	6.0 %	0.45 %	3.36 %
Private Equity	12.0 %	6.83 %	6.95 %
Real Estate	11.0 %	4.50 %	5.13 %
Infrastructure and Forestland	3.0 %	4.50 %	5.09 %
Liquidity	2.0 %	(0.55)%	(1.05)%
Total	100.0 %		

(a) An expected inflation of 2.5% used for this period

(b) An expected inflation of 3.0% used for this period

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 each Plan, calculated using the discount rate for each 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 1-percentage point lower or 1-percentage point higher than the current rate:

	Miscellaneous
1% Decrease Net Pension Liability	6.50% \$ 6,113,709
Current Discount Rate Net Pension Liability	7.50% \$ 3,387,510
1% Increase Net Pension Liability	8.50% \$ 1,125,023

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2015

7. EMPLOYEE'S RETIREMENT PLANS (CONTINUED):

- b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued):

Pension Plans Fiduciary Net Position

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

- c. Payable to the Pension Plans:

At June 30, 2015, the District had no outstanding amount of contributions to the pension plans required for the year ended June 30, 2015.

8. OTHER POST-EMPLOYMENT BENEFITS (OPEB):

- a. Plan Description:

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

- b. Funding Policy:

The contribution requirements of plan members and the District are established and may be amended by the District, District's Board of Directors, and/or the employee associations. Currently, contributions are not required from plan members. The District is currently funding this OPEB obligation on a pay-as-you-go basis. For the year ended June 30, 2015, the District had three eligible retired employees.

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2015

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

c. Annual OPEB Cost and Net OPEB Obligation:

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

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

Annual required contribution	\$ 112,713
Interest on net OPEB obligation	25,905
Adjustment to ARC	<u>(38,866)</u>
Annual OPEB cost (Expense)	99,752
Actual contributions made	<u>(17,595)</u>
Increase in net OPEB obligation	82,157
Net OPEB Obligation - beginning of year	<u>647,625</u>
Net OPEB Obligation - end of year	<u><u>\$ 729,782</u></u>

d. Funded Status and Funding Progress:

The District's annual OPEB cost, the percentage of annual OPEB costs contributed to the plan, and the net OPEB obligation for the year ended June 30, 2015, the fifth year in which GASB Statement 45 is required to be implemented, were as follows:

Fiscal Year Ended	Annual OPEB Cost	% of Annual OPEB Costs Contributed	Net OPEB Obligation
6/30/11	\$ 165,530	0%	\$ 331,060
6/30/12	165,530	9.62%	480,674
6/30/13	112,713	14.66%	576,857
6/30/14	88,612	20.14%	647,625
6/30/15	99,752	17.64%	729,782

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



LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2015

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

d. Funded Status and Funding Progress (Continued):

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.

e. Actuarial Methods and Assumptions:

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the July 1, 2012 actuarial investment valuation, the projected unit credit method was used. The actuarial assumptions included a 5% investment rate of return and the District's share of health care trend rates will increase at a rate of 8% for the year 2012, 7% for the year 2013, 6% for the year 2014, and 5% for the years 2015 and thereafter. The District's unfunded actuarial accrued liability will be amortized over thirty years.

9. UNRESTRICTED NET ASSETS:

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

Operating reserve fund	\$	1,969,600
Self insurance/emergency reserve fund		1,695,500
Rate stabilization reserve fund		814,900
Employee liabilities		412,500
Capital replacement		5,665,000
Water supply reliability		480,000
Totals	\$	<u>11,037,500</u>

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2015

10. RISK MANAGEMENT:

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

At June 30, 2015, 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 up to \$100,000,000 (total insurable value of \$15,343,524). The District has a \$2,500 deductible for buildings, personal property, fixed and mobile equipment and licensed vehicles, and deductibles ranging from \$25,000 to \$50,000 or higher based on usage for boiler and machinery.

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

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

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

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

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

Underground Storage Tank Pollution Liability - The District is insured up to \$3,500,000 with a \$10,000 deductible, per environmental incident; the Authority is self-insured up to \$500,000 and has purchased excess insurance coverage of \$3,000,000 with a \$750,000 aggregate limit.

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. The District has also purchased \$50,000 of coverage for an employee dishonesty bond from a separate agency.

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2015

11. OPERATING LEASES:

As of June 30, 2015, the District has operating leases with various communication companies to rent space on District occupied property. The operating leases are on a month-to-month basis with the District receiving monthly lease payments of approximately \$31,500.

12. RESTATEMENT OF PRIOR YEAR FINANCIAL STATEMENTS:

The implementation of GASB Statement Numbers 68 and 71 requires reporting the net pension liability of the District's defined benefit pension plans in the financial statements and is applied retroactively by restating the net position as of the beginning of the fiscal year. The implementation of GASB Numbers 68 and 71 resulted in a reduction of net position by \$4,376,284 as of July 1, 2014.

Unrestricted net position was also reduced by \$689,500 for a project included in construction in progress that was not going to be completed as originally intended as of July 1, 2014.

13. SUBSEQUENT EVENTS:

Events occurring after June 30, 2015 have been evaluated for possible adjustments to the financial statements or disclosure as of December 18, 2015, which is the date these financial statements were available to be issued.

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**REQUIRED SUPPLEMENTARY INFORMATION**

LAGUNA BEACH COUNTY WATER DISTRICT

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Last Ten Fiscal Years\*

	<u>2015</u>
Plan's proportion of the net pension liability	0.05444%
Plan's proportionate share of the net pension liability	\$ 3,387,510
Plan's covered - employee payroll	\$ 3,403,024
Plan's proportionate share of the net pension liability as percentage of covered - employee payroll	99.54%
Plan's proportionate share of the plan's fiduciary net position as a percentage of the total pension liability	83.52%

Notes to Schedule:

Changes in Benefit Terms:

None

Changes in Assumptions:

None

\* - Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

LAGUNA BEACH COUNTY WATER DISTRICT

SCHEDULE OF CONTRIBUTIONS

Last Ten Fiscal Years\*

	<u>2015</u>
Contractually required contribution (actuarially determined)	\$ 303,191
Contributions in relation to the actuarially determined contributions	<u>(303,191)</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered - employee payroll	\$ 3,403,024
Contributions as a percentage of covered - employee payroll	8.91%

Notes to Schedule:

Valuation Date 6/30/2012

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Average remaining period	19 years (2% <sup>@55</sup> ), 5 years (2% <sup>@62</sup> )
Asset valuation method	15-year smoothed market

Actuarial Assumptions:

Discount rate	7.5% (net of administrative expenses)
Projected salary increases	3.30% to 14.20% depending on age, service, and type of employment
Inflation	2.75%
Payroll growth	3.00%
Individual salary growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%
Retirement age	50 years (2% <sup>@55</sup> ) and 52 (2% <sup>@62</sup> )
Mortality	Mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board, first used in the June 30, 2009 valuation. For purposes of the post-retirement mortality rates, those revised rates include 5 years of projected on-going mortality improvement using Scale AA published by the Society of Actuaries until June 30, 2010. There is no margin for future mortality improvement beyond the valuation date.

\* - Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown

LAGUNA BEACH COUNTY WATER DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

For the year ended June 30, 2015

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Laguna Beach County Water District (the District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 18, 2015.

**Internal Control over Financial Reporting**

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

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

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



## Compliance and Other Matters

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

### Purpose of this Report

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

*White Nelson Dick Evans LLP*

Irvine, California  
December 18, 2015

