

**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, 2016**

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, 2016, 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.

## **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, 2016 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.

## **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 benefits 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 12, 2016, 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 12, 2016

LAGUNA BEACH COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016

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, 2016. Please read it in conjunction with the financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

Fiscal Year 2016

- The District's net position increased by \$10,417 or 0.02 percent.
- During the year the District's total revenues decreased by \$885,081 or 6.79 percent, and expenses increased by \$87,967 or 0.73 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 I.

**TABLE I**  
Condensed Statements of Net Position

	Fiscal Year 2016	Fiscal Year 2015	Dollar Change
<b>Assets:</b>			
Current and other assets	\$ 21,277,053	\$ 22,148,718	\$ (871,665)
Capital assets	<u>50,332,826</u>	<u>46,654,817</u>	<u>3,678,009</u>
Total Assets	<u>71,609,879</u>	<u>68,803,535</u>	<u>2,806,344</u>
Deferred Outflows of Resources	<u>469,593</u>	<u>341,282</u>	<u>128,311</u>
<b>Liabilities:</b>			
Current liabilities	1,653,486	1,070,134	583,352
Noncurrent liabilities	<u>7,173,281</u>	<u>4,369,261</u>	<u>2,804,020</u>
Total Liabilities	<u>8,826,767</u>	<u>5,439,395</u>	<u>3,387,372</u>
Deferred Inflows of Resources	<u>815,338</u>	<u>1,278,472</u>	<u>(463,134)</u>
<b>Net Position:</b>			
Net investment in capital assets	47,232,826	46,654,817	578,009
Unrestricted	<u>15,204,541</u>	<u>15,772,133</u>	<u>(567,592)</u>
Total Net Position	<u>\$ 62,437,367</u>	<u>\$ 62,426,950</u>	<u>\$ 10,417</u>

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

June 30, 2016

**NET POSITION (CONTINUED)**

As can be seen from the Table 1, net position increased by \$10,147 from fiscal year 2015 to 2016. Looking more carefully at the table you can see that the capital assets increased \$3,678,009 mainly related to the addition of \$3,100,000 in groundwater production rights. Also, total liabilities increased \$3,387,372 mainly as a result of the addition of a \$3,100,000 water right fee payable related to the groundwater production rights.

Unrestricted Net Position (those that can be used to finance day-to-day operations) decreased by \$567,592 due to a decrease in operating revenue brought on by state-mandated conservation measures.

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

	Fiscal Year 2016	Fiscal Year 2015	Dollar Change
<b>Revenues:</b>			
Operating revenues	\$ 8,648,507	\$ 9,457,300	\$ (808,793)
Nonoperating revenues	3,510,181	3,586,469	(76,288)
<b>Total Revenues</b>	<b>12,158,688</b>	<b>13,043,769</b>	<b>(885,081)</b>
<b>Expenses:</b>			
Depreciation	1,982,140	1,964,961	17,179
Other operating expenses	10,166,131	10,095,343	70,788
<b>Total Expenses</b>	<b>12,148,271</b>	<b>12,060,304</b>	<b>87,967</b>
<b>Change in Net Position</b>	<b>10,417</b>	<b>983,465</b>	<b>(973,048)</b>
<b>Beginning Net Position</b>	<b>62,426,950</b>	<b>61,443,485</b>	<b>983,465</b>
<b>Ending Net Position</b>	<b>\$ 62,437,367</b>	<b>\$ 62,426,950</b>	<b>\$ 10,417</b>

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

June 30, 2016

**NET POSITION (CONTINUED)**

A closer examination of the source of changes in net position reveals that the District's operating revenues decreased by \$808,793 in fiscal year 2016 due to a decrease in water sales by 640 acre feet due to state-mandated conservation measures. In addition, nonoperating revenues decreased by \$76,288 in fiscal year 2016 due to a decrease in interest revenue. Operating costs (exclusive of depreciation) increased by \$70,788 in fiscal year 2016 due a decrease in water purchases, which were offset by increases in water costs, and labor and benefits.

**BUDGETARY HIGHLIGHTS**

**TABLE 3**  
Fiscal Year 2016 Actual vs. Fiscal Year 2016 Budget

	Fiscal Year 2016		
	Actual	Budget	Variance
<b>Revenues:</b>			
Operating revenues	\$ 8,648,507	\$ 8,439,560	\$ 208,947
Nonoperating revenues	3,510,181	3,261,750	248,431
<b>Total Revenues</b>	<b>12,158,688</b>	<b>11,701,310</b>	<b>457,378</b>
<b>Expenses:</b>			
<b>Operating Expenses:</b>			
Water purchased	3,479,100	3,259,400	(219,700)
Source of supply	137,787	160,200	22,413
Pumping	576,315	529,600	(46,715)
Transmission and distribution	2,289,024	2,314,200	25,176
Customer service	540,987	525,420	(15,567)
General and administrative	2,944,025	2,805,130	(138,895)
Other operation and maintenance	198,893	230,820	31,927
Depreciation	1,982,140	-	(1,982,140)
<b>Total Expenses</b>	<b>12,148,271</b>	<b>9,824,770</b>	<b>(2,323,501)</b>
<b>Change in Net Position</b>	<b>\$ 10,417</b>	<b>\$ 1,876,540</b>	<b>\$ (1,866,123)</b>

As Table 3 shows, the actual change in net position is \$1,866,123 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, 2016

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

**CAPITAL ASSETS**

At the end of fiscal year 2016, the District had invested approximately \$93 million in a broad range of infrastructure as shown in Table 4.

**TABLE 4  
Capital Assets**

	Fiscal Year 2016	Fiscal Year 2015	Dollar Change
Capital Assets:			
Land and land rights	\$ 4,517,179	\$ 1,309,155	\$ 3,208,024
Source of supply plant	9,897,089	9,817,586	79,503
Pumping plant	6,590,027	6,543,466	46,561
Transmission and distribution system	60,399,231	58,500,338	1,898,893
General plant and equipment	11,175,581	10,435,219	740,362
Construction in progress	340,896	654,090	(313,194)
Total Capital Assets	<u>92,920,003</u>	<u>87,259,854</u>	5,660,149
Less accumulated depreciation	<u>(42,587,177)</u>	<u>(40,605,037)</u>	(1,982,140)
Net Capital Assets	<u>\$ 50,332,826</u>	<u>\$ 46,654,817</u>	<u>\$ 3,678,009</u>

The major capital asset additions for the fiscal year 2016 were groundwater production rights, transmission and distribution system improvements which included pipe, service line, fire hydrant, valve and meter replacements, one rehabilitated reservoir, a reservoir management system (chemical treatment), and a new standby emergency generator.

Additional information on the District's capital assets can be found in Note 4 to the financial statements on page 30 of this report.

**LONG-TERM LIABILITY ADMINISTRATION**

Over the next five years, the District owes the Orange County Water District a total of \$3,100,000 for the right to produce 2,025 acre feet of ground water annually.

Additional information on the District's water right fee payable can be found in Note 9 to the financial statements on page 40 of this report.

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

June 30, 2016

**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 2016 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 2016, the District's contribution rate included a normal cost rate of 8.512% plus a \$147,439 payment towards the District's unfunded liability. The contribution rate for fiscal year 2017 will include a normal cost rate of 8.88% plus a \$179,522 payment towards the District's unfunded liability.

These indicators were taken into consideration when adopting the District's budget for fiscal year 2016. 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 2016 Actual vs. Fiscal Year 2017 Budget**

	Fiscal Year 2016 Actual	Fiscal Year 2017 Budget	Variance
<b>Revenues:</b>			
Operating revenues	\$ 8,648,507	\$ 9,625,050	\$ 976,543
Nonoperating revenues	3,510,181	3,457,420	(52,761)
<b>Total Revenues</b>	<u>12,158,688</u>	<u>13,082,470</u>	<u>923,782</u>
<b>Expenses:</b>			
Depreciation	1,982,140	-	1,982,140
Other operating expenses	10,166,131	9,728,850	437,281
<b>Total Expenses</b>	<u>12,148,271</u>	<u>9,728,850</u>	<u>2,419,421</u>
<b>Change in Net Position</b>	10,417	3,353,620	3,343,203
<b>Beginning Net Position</b>	<u>62,426,950</u>	<u>62,437,367</u>	<u>10,417</u>
<b>Ending Net Position</b>	<u>\$ 62,437,367</u>	<u>\$ 65,790,987</u>	<u>\$ 3,353,620</u>

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

June 30, 2016

**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, 2016

ASSETS:

CURRENT ASSETS:

Cash and cash equivalents	\$ 4,348,535
Investments	14,758,625
Accounts receivable	1,496,814
Interest receivable	80,708
Taxes receivable	36,866
Computer loans to employees	7,833
Notes receivable, current portion	22,485
Inventory	192,047
Prepaid expenses	125,895

TOTAL CURRENT ASSETS 21,069,808

NONCURRENT ASSETS:

CAPITAL ASSETS:

Capital assets, not being depreciated	4,858,075
Capital assets, being depreciated, net	<u>45,474,751</u>

TOTAL CAPITAL ASSETS, NET 50,332,826

OTHER NONCURRENT ASSETS:

Notes receivable	<u>207,245</u>
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TOTAL NONCURRENT ASSETS 50,540,071

TOTAL ASSETS 71,609,879

DEFERRED OUTFLOWS OF RESOURCES:

Deferred amounts from pension plans	<u>469,593</u>
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See accompanying notes to financial statements.

(Continued)

LAGUNA BEACH COUNTY WATER DISTRICT

STATEMENT OF NET POSITION  
(CONTINUED)

June 30, 2016

LIABILITIES:

CURRENT LIABILITIES:

Accounts payable	\$ 750,148
Accrued payroll and related costs	139,993
Water related deposits	4,575
Tenant deposit	4,200
Construction deposit	44,272
Water right fee payable, current portion	620,000
Accrued vacation, current portion	90,298
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TOTAL CURRENT LIABILITIES	1,653,486

NONCURRENT LIABILITIES:

Accrued vacation	270,894
Water right fee payable	2,480,000
Other post-employment benefits obligation	836,273
Net pension liability	3,586,114
	<hr/>
TOTAL NONCURRENT LIABILITIES	7,173,281

TOTAL LIABILITIES

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8,826,767

DEFERRED INFLOWS OF RESOURCES:

Deferred amounts from pension plans	815,338
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NET POSITION:

Net investment in capital assets	47,232,826
Unrestricted	15,204,541
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TOTAL NET POSITION

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\$ 62,437,367

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, 2016

<b>OPERATING REVENUES:</b>	
Water sales	\$ 8,439,989
Fire service charges	10,587
Equipment rental	16,910
Overhead expense charged out	26,490
Penalties	62,855
Customer administration fees	12,825
Miscellaneous income	54,771
Reserve storage charges	24,080
<b>TOTAL OPERATING REVENUES</b>	<u>8,648,507</u>
<b>OPERATING EXPENSES:</b>	
Water purchased	3,479,100
Source of supply	137,787
Pumping	576,315
Transmission and distribution	2,289,024
Customer service	540,987
General and administrative	2,944,025
Other operation and maintenance	198,893
Depreciation	1,982,140
<b>TOTAL OPERATING EXPENSES</b>	<u>12,148,271</u>
<b>OPERATING LOSS</b>	<u>(3,499,764)</u>
<b>NONOPERATING REVENUES:</b>	
Interest income	473,665
Rental income	395,354
Property taxes	2,641,162
<b>TOTAL NONOPERATING REVENUES</b>	<u>3,510,181</u>
<b>CHANGES IN NET POSITION</b>	10,417
<b>NET POSITION - BEGINNING OF YEAR</b>	<u>62,426,950</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 62,437,367</u>

See accompanying notes to financial statements.

LAGUNA BEACH COUNTY WATER DISTRICT

STATEMENT OF CASH FLOWS

For the year ended June 30, 2016

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Receipts from customers	\$ 8,714,354
Payments to suppliers	(6,485,846)
Payments to employees	<u>(3,833,806)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>(1,605,298)</u>
<b>CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Proceeds from taxes	<u>2,645,544</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Acquisition and construction of capital assets	<u>(2,700,962)</u>
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(2,700,962)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Investment income	458,981
Rental income	395,354
Collections on notes receivable	22,191
Purchase of investments	(7,552,106)
Proceeds from sale or maturity of investments	<u>8,141,125</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>1,465,545</u>
 NET DECREASE IN CASH AND CASH EQUIVALENTS	 (195,171)
 CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	 <u>4,543,706</u>
 CASH AND CASH EQUIVALENTS - END OF YEAR	 <u>\$ 4,348,535</u>
 NONCASH CAPITAL AND RELATED FINANCING ACTIVITY:	
Acquisition of groundwater rights on account	\$ 3,100,000

See accompanying notes to financial statements.

(Continued)

LAGUNA BEACH COUNTY WATER DISTRICT

STATEMENT OF CASH FLOWS  
(CONTINUED)

For the year ended June 30, 2016

RECONCILIATION OF OPERATING LOSS TO  
NET CASH USED IN OPERATING ACTIVITIES:

Operating loss	\$ (3,499,764)
Loss on disposition of capital assets	140,814
Depreciation	1,982,140
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:	
(Increase) decrease in receivables - customer accounts	61,114
(Increase) decrease in inventory	(50,287)
(Increase) decrease in prepaid expenses	64,759
(Increase) decrease in deferred outflows of resources related to pensions	(128,311)
Increase (decrease) in accounts payable	(88,463)
Increase (decrease) in accrued liabilities	66,006
Increase (decrease) in other post-employment benefits liability	106,491
Increase (decrease) in pension liability	198,604
Increase (decrease) in deferred inflows of resources related to pensions	(463,134)
Increase (decrease) in deposits	<u>4,733</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (1,605,298)</u>

See accompanying notes to financial statements.



# LAGUNA BEACH COUNTY WATER DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2016

### 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 8,112 metered customer services are largely residential and commercial. On January 1, 2004, Emerald Bay Services District was de-annexed from the District's service area. This represents approximately 553 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 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. Effective January 20, 2016, the District reestablished its right under the 1933 Adjudication Judgement to produce up to 2,025 acre feet per year of groundwater from any location within the Orange County Water District basin.

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 FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016

1. DESCRIPTION OF REPORTING ENTITY AND 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, 2016, the District had no restricted resources.

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016

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

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.

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".

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016

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

e. New GASB Accounting Pronouncements:

Current Year Standards

In fiscal year 2015-2016, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 72, *"Fair Value Measurement and Application"*. GASB Statement No. 72 requires the District to use valuation techniques which are appropriate under the circumstances and are either a market approach, a cost approach, or income approach. GASB Statement No. 72 establishes a hierarchy of inputs used to measure fair value consisting of three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices included within Level 1, which are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs, and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. GASB Statement No. 72 also contains note disclosure requirements regarding the hierarchy of valuation inputs and valuation techniques that were used for the fair value measurements. There was no material impact on the District's financial statements as a result of the implementation of GASB Statement No. 72.

GASB Statement No. 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"*, was required to be implemented in the current fiscal year, except for those provisions that address employer and governmental nonemployer contributing entities for pensions that are not within the scope of GASB Statement No. 68, and is effective for periods beginning after June 15, 2016, and did not impact the District.

GASB Statement No. 76, *"The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments"*, was required to be implemented in the current fiscal year and did not impact the District.

GASB Statement No. 79, *"Certain External Investment Pools and Pool Participants"*, was required to be implemented in the current fiscal year, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing, which are effective for periods beginning after December 15, 2015, and did not impact the District.

GASB Statement No. 82, *"Pension Issues an Amendment of GASB Statement No. 67, No. 68 and No. 73"*, changed the measurement of covered payroll reported in required supplementary information and has been early implemented.

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016

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

Pending Accounting Standards

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

- 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"*, the provisions that address employer and governmental nonemployer contributing entities for pensions that are not within the scope of GASB 68, 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 77 - *"Tax Abatement Disclosure"*, effective for periods beginning after December 15, 2015.
- GASB 78 - *"Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans"*, effective for periods beginning after December 15, 2015.
- GASB 79 - *"Certain External Investment Pools and Pool Participants"*, contains certain provisions on portfolio quality, custodial credit risk, and shadow pricing, effective for periods beginning after December 15, 2015.
- GASB 80 - *"Blending Requirements for Certain Component Units"*, effective for periods beginning after June 15, 2016.
- GASB 81 - *"Irrevocable Split-Interest Agreements"*, effective for periods beginning after December 15, 2016.
- GASB 82 - *"Pension Issues"*, effective for periods beginning after June 15, 2016, except for certain provisions on selection of assumptions, which are effective in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016

I. 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 will not be recognized as an outflow of resources (expense/expenditure) until then. The District has two items that qualify for reporting in this category. The first item is a deferred outflow related to pensions. This amount is equal to employer contributions made after the measurement date of the net pension liability. The second item is also a deferred outflow related to pensions for differences between expected and actual experiences. 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, which is 3.8 years.

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 three 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 inflow 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, 2015 (the beginning of the measurement period ended June 30, 2016), which is 3.8 years. The third item is a deferred inflow from pensions resulting from changes in assumptions. This amount is amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the plans, 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.

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016

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

h. Cash and Cash Equivalents:

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

i. Accounts Receivable:

The District extends credit to customers in the normal course of operations. Management has evaluated the accounts and believes they are all collectible. Management evaluates all accounts receivable and, if it is determined that they are uncollectible, they are written off as bad debt expense. A charge of \$7,049 was made to bad debt expense for the year ended June 30, 2016.

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 as follows:

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

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016

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

i. Property Taxes:

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

The property tax calendar is as follows:

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

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

November 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, 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, 2016

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

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 accounts 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, 2016, are as follows:

Cash and cash equivalents	\$ 4,348,535
Investments	<u>14,758,625</u>
Total cash and investments	<u>\$ 19,107,160</u>

Cash and investments consisted of the following:

Cash on hand	\$ 500
Deposits with financial institutions	310,930
Investments	<u>18,795,730</u>
Total cash and investments	<u>\$ 19,107,160</u>

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016

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.

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

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 FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016

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	
United States Government-Sponsored				
Agency Securities	\$ -	\$ 186,250	\$ 2,205,755	\$ 2,392,005
Certificates of Deposit	100,000	-	-	100,000
Negotiable Certificates of Deposit	-	-	5,049,764	5,049,764
Medium-Term Corporate Notes	100,593	577,789	4,679,864	5,358,246
Municipal Notes or Bonds	402,448	430,858	1,025,305	1,858,611
Local Agency Investment Fund	4,037,104	-	-	4,037,104
<b>Total</b>	<b>\$ 4,640,145</b>	<b>\$ 1,194,897</b>	<b>\$ 12,960,688</b>	<b>\$ 18,795,730</b>

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 & Poor's and/or Moody's credit ratings as of year-end for each investment type.

Investment Type	Total	Minimum Legal Rating	Not Required to be			Rated
			AAA	Other	Unrated	
United States Government-Sponsored						
Agency Securities	\$ 2,392,005	N/A	\$ 2,392,005	\$ -	\$ -	\$ -
Certificate of Deposit (1)	100,000	N/A	-	-	-	100,000
Negotiable Certificates of Deposit	5,049,764	N/A	-	-	5,049,764	-
Medium-Term Corporate Notes	5,358,246	A	-	5,358,246	-	-
Municipal Notes or Bonds	1,858,611	A	-	1,858,611	-	-
Local Agency Investment Fund	4,037,104	N/A	-	-	4,037,104	-
<b>Total</b>	<b>\$ 18,795,730</b>		<b>\$ 2,392,005</b>	<b>\$ 7,216,857</b>	<b>\$ 9,086,868</b>	<b>\$ 100,000</b>

N/A - Not Applicable

(1) Certificate of Deposit is insured by the Federal Deposit Insurance Corporation (FDIC).

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016

2. CASH AND INVESTMENTS (CONTINUED):

Disclosures Relating to Credit Risk (Continued)

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

Other:	<u>MTN</u>	<u>MNB</u>
AA+	\$ 460,974	\$ 430,858
AA	-	172,307
AA-	713,177	663,366
Aa3 (Moody's credit rating)	-	100,009
A+	1,101,371	492,071
A	2,101,459	-
A-	981,265	-
	<u>\$5,358,246</u>	<u>\$1,858,611</u>

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, 2016, 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).

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016

2. CASH AND INVESTMENTS (CONTINUED):

Custodial Credit Risk (Continued):

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, 2016, 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 generally accepted accounting principles. The hierarchy is based on the relative inputs used to measure the fair value of the investments. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets that the District has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets in active markets;
- Quoted prices for identical or similar assets in inactive markets;
- Inputs other than quoted prices that are observable for the asset;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016

2. CASH AND INVESTMENTS (CONTINUED):

Fair Value Measurements (Continued)

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs reflect the District's own assumptions about the inputs market participants would use in pricing the asset (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the District's own data.

The asset's level within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The determination of what constitutes observable requires judgment by the District's management. District management considers observable data to be that market data which is readily available, regularly distributed or updated, reliable, and verifiable, not proprietary, and provided by multiple independent sources that are actively involved in the relevant market.

The categorization of an investment within the hierarchy is based upon the relative observability of the inputs to its fair value measurement and does not necessarily correspond to District management's perceived risk of that investment. The methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

When available, quoted prices are used to determine fair value. When quoted prices in active markets are available, investments are classified within Level 1 of the fair value hierarchy. When quoted prices in active markets are not available, fair values are based on evaluated prices received by District's asset manager from a third-party service provider.

The following is a description of the recurring valuation methods and assumptions used by the District to estimate the fair value of its investments.

For a large portion of the District's portfolio, the District's asset manager applies its leveling methodology across all securities in a specific sector (i.e., U.S. Government-Sponsored Agency Securities). Inputs to the pricing models are based on observable market inputs in active markets. The District has no investments categorized in Level 3. When valuing Level 3 securities, the inputs or methodology is not necessarily an indication of the risks associated with investing in those securities. Changes in valuation techniques may result in transfers into or out of an assigned level within the disclosure hierarchy.

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016

2. CASH AND INVESTMENTS (CONTINUED):

Fair Value Measurements (Continued)

	Quoted Prices Level 1	Observable Inputs Level 2	Unobservable Inputs Level 3	Total
United States Government-Sponsored Agency Securities	\$ -	\$ 2,392,005	\$ -	\$ 2,392,005
Negotiable Certificates of Deposit	-	5,049,764	-	5,049,764
Medium-Term Corporate Notes	-	5,358,246	-	5,358,246
Municipal Notes or Bonds	-	1,858,611	-	1,858,611
Total Levelled Investments	<u>\$ -</u>	<u>\$ 14,658,626</u>	<u>\$ -</u>	<u>14,658,626</u>
Investments not subject to fair value hierarchy:				
FDIC-Insured Certificate of Deposit				100,000
Local Agency Investment Fund				<u>4,037,104</u>
Total Investment Portfolio				<u>\$ 18,795,730</u>

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 first 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 the 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, 2016, the outstanding balance on the note was \$229,730.

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

Year Ending June 30,	Principal	Interest	Total
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	23,703	2,214	25,917
2022 - 2025	113,287	6,063	119,350
	<u>\$ 229,730</u>	<u>\$ 20,202</u>	<u>\$ 249,932</u>

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016

4. CAPITAL ASSETS:

The following is a summary of changes in capital assets at June 30, 2016.

	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2016</u>
Capital assets, not being depreciated:				
Land and land rights	\$ 1,309,155	\$ 3,208,024	\$ -	\$ 4,517,179
Construction in progress	<u>654,090</u>	<u>2,578,862</u>	<u>(2,892,056)</u>	<u>340,896</u>
 Total capital assets, not being depreciated	 <u>1,963,245</u>	 <u>5,786,866</u>	 <u>(2,892,056)</u>	 <u>4,858,075</u>
Capital assets, being depreciated:				
Source of supply plant	9,817,586	79,503	-	9,897,089
Pumping plant	6,543,466	46,561	-	6,590,027
Transmission and distribution system	58,500,338	1,898,893	-	60,399,231
General plant and equipment	<u>10,435,219</u>	<u>740,362</u>	<u>-</u>	<u>11,175,581</u>
 Total capital assets, being depreciated	 <u>85,296,609</u>	 <u>2,765,319</u>	 <u>-</u>	 <u>88,061,928</u>
Less accumulated depreciation:				
Source of supply plant	(5,517,592)	(225,124)	-	(5,742,716)
Pumping plant	(4,660,617)	(175,315)	-	(4,835,932)
Transmission and distribution system	(22,075,936)	(1,238,307)	-	(23,314,242)
General plant and equipment	<u>(8,350,892)</u>	<u>(343,394)</u>	<u>-</u>	<u>(8,694,287)</u>
 Total accumulated depreciation	 <u>(40,605,037)</u>	 <u>(1,982,140)</u>	 <u>-</u>	 <u>(42,587,177)</u>
 Total capital assets, being depreciated, net	 <u>44,691,572</u>	 <u>783,179</u>	 <u>-</u>	 <u>45,474,751</u>
 Total capital assets, net	 <u>\$ 46,654,817</u>	 <u>\$ 6,570,065</u>	 <u>\$ (2,892,056)</u>	 <u>\$ 50,332,826</u>



LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016

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, 2016, there were nine participants in the plan. Outstanding balances as of June 30, 2016 are \$7,833.

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 \$361,192 as of June 30, 2016. 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. 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 (all other) Employee Pension Plan, which is a cost-sharing multiple-employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS) in the PERF C risk pool. 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 plan 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, 2016

7. RETIREMENT PLAN (CONTINUED):

a. General Information about the Pension Plan (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 California Public Employees' Retirement Law.

The Plan's provisions and benefits in effect at June 30, 2016, 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:		
Normal cost rate	8.512%	6.237%
Payment of unfunded liability (1)	\$147,439	-

(1) The District prepaid the unfunded liability at the beginning of the year.

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, 2016

7. RETIREMENT PLAN (CONTINUED):

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

As of June 30, 2016, the District reported net pension liabilities for its proportionate shares of the net pension liability of the PERF C risk pool as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous	\$ 3,586,114

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of Plan is measured as of June 30, 2015, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014, rolled forward to June 30, 2015, 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.

Contributions:

The District's proportionate share of the net pension liability of the PERF C risk pool as of June 30, 2014 and 2015 was as follows:

	Miscellaneous
Proportion - June 30, 2014	0.13706%
Proportion - June 30, 2015	0.13071%
Change - Increase (Decrease)	(0.00635)%

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016

7. RETIREMENT PLAN (CONTINUED):

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

Contributions (Continued)

For the year ended June 30, 2016, the District recognized pension expense of \$54,855. At June 30, 2016, 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	\$ 447,696	\$ -
Differences between actual and expected experience	21,897	-
Change in assumptions	-	(207,163)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	-	(504,321)
Net differences between projected and actual earnings on plan investments	<u>-</u>	<u>(103,854)</u>
Total	<u>\$ 469,593</u>	<u>\$ (815,338)</u>

The \$447,696 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, 2017. 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>
2017	\$ (330,979)
2018	(327,714)
2019	(267,495)
2020	132,747

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016

7. RETIREMENT PLAN (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, 2014 actuarial valuations were determined using the following actuarial assumptions:

	<u>Miscellaneous</u>
Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method
<b>Actuarial Assumptions:</b>	
Discount Rate	7.65%
Inflation	2.75%
Projected Salary Increase	(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's membership data for all funds. The mortality table used was developed based on CalPERS's 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.

All other actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality, and retirement rates. The Experience Study report can be obtained at the CalPERS website under Forms and Publications.

**Change of Assumptions:**

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.

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016

7. RETIREMENT PLAN (CONTINUED):

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

Discount Rate

The discount rate used to measure the total pension liability was 7.65% 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 7.65% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.65% 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.

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.

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. The target allocation shown was adopted by the CalPERS Board of Directors effective on July 1, 2014.

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016

7. RETIREMENT PLAN (CONTINUED):

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

Discount Rate (Continued)

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Equity	51.0 %	5.25 %	5.71 %
Global Fixed Income	19.0 %	0.99 %	2.43 %
Inflation Sensitive	6.0 %	0.45 %	3.36 %
Private Equity	10.0 %	6.83 %	6.95 %
Real Estate	10.0 %	4.50 %	5.13 %
Infrastructure and Forestland	2.0 %	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 the Plan, calculated using the discount rate for the 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:

	Miscellaneous
1% Decrease Net Pension Liability	6.65% \$ 6,541,203
Current Discount Rate Net Pension Liability	7.65% \$ 3,586,114
1% Increase Net Pension Liability	8.65% \$ 1,146,344

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016

7. RETIREMENT PLAN (CONTINUED):

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

Pension Plans 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 Plans:

At June 30, 2016, the District had no outstanding amount of contributions to the pension plan required for the year ended June 30, 2016.

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 from 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 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, the 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 due to the insignificant amount that the District is paying each year. For the year ended June 30, 2016, the District had three eligible retired employees.



LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016

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 costs each year and to amortize any unfunded liabilities of the plan over a period not to exceed 30 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	\$ 163,542
Interest on net OPEB obligation	29,191
Adjustment to ARC	<u>(42,203)</u>
Annual OPEB cost (expense)	150,530
Actual contributions made	<u>(44,039)</u>
Increase in net OPEB obligation	106,491
Net OPEB obligation - beginning of year	<u>729,782</u>
Net OPEB obligation - end of year	<u>\$ 836,273</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, 2016, the sixth 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
6/30/16	150,530	29.26%	836,273

As of July 1, 2015, the most recent, actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$1,195,976, and the actuarial value of assets was zero, resulting in an unfunded accrued liability (UAL) of \$1,195,976. The covered payroll (annual payroll of active employees covered by the plan) was \$3,633,568, and the ratio of the UAL to the covered payroll was 32.91%.

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016

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, and 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 other post-employment benefit plan 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, 2015 actuarial investment valuation, the projected unit credit method was used. The actuarial assumptions included a 4% investment rate of return, and the District's share of health care trend rates will increase at a rate of 8% for the year 2015, 7% for the year 2016, 6% for the year 2017, and 5% for the years 2018 and thereafter. The District's unfunded actuarial accrued liability will be amortized over 30 years.

9. WATER RIGHT FEE PAYABLE:

On January 20, 2016, the District entered into an agreement with 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 District made the initial installment in September 2016.

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016

10. UNRESTRICTED NET ASSETS:

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

Board-designated Amounts:	
Operating reserve fund	\$ 1,691,800
Self-insurance/emergency reserve fund	1,700,000
Rate stabilization reserve fund	736,060
Employee liabilities	415,800
Capital replacement	<u>4,254,600</u>
Total Board-designated Amounts	8,798,260
Undesignated	<u>6,406,281</u>
Total Unrestricted Net Assets	<u>\$ 15,204,541</u>

11. 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, 2016, 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 \$150,000,000 (total insurable value of \$15,273,994). 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 \$30,000,000 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 \$30,000,000.

Auto Liability - The District is insured up to \$30,000,000 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 \$30,000,000.

Public Officials' Liability - The District has coverage for errors and omissions for up to \$30,000,000. The Insurance Authority has pooled self-insurance up to \$2,000,000 per occurrence and has purchased excess insurance coverage up to \$30,000,000.

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016

11. RISK MANAGEMENT (CONTINUED):

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.

12. OPERATING LEASES:

As of June 30, 2016, the District has operating leases with various communication companies to rent space on District occupied property. Rental income from these leases for the year ended June 30, 2016 totaled \$395,354. Future minimum receipts from these operating leases are as follows:

2017	\$	398,467
2018		334,528
2019		180,133
2020		157,283
2021		101,311
	\$	<u>1,171,722</u>

13. SUBSEQUENT EVENTS:

Events occurring after June 30, 2016 have been evaluated for possible adjustments to the financial statements or disclosure as of December 12, 2016, which is the date these financial statements were available to be issued.

**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, 2016</u>	<u>June 30, 2015</u>
Measurement Period	June 30, 2015	June 30, 2014
Plan's Proportion of the Net Pension Liability	0.05225%	0.05444%
Plan's Proportionate Share of the Net Pension Liability	\$ 3,586,114	\$ 3,387,510
Plan's Covered Employee Payroll	\$ 3,403,024	\$ 3,465,886
Plan's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	105.38%	97.74%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	78.40%	83.52%
Plan's Proportionate Share of Aggregate Employer Contributions	\$ 437,758	\$ 464,098

Notes to Schedule:

**Benefit Changes:**

There were no changes in benefits.

**Changes in Assumptions:**

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.

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

LAGUNA BEACH COUNTY WATER DISTRICT

SCHEDULE OF CONTRIBUTIONS - DEFINED BENEFIT PENSION PLAN

Last Ten Fiscal Years\*

Fiscal year ended	June 30, 2016	June 30, 2015
Contractually required contribution (actuarially determined)	\$ 447,696	\$ 341,282
Contributions in relation to the actuarially determined contributions	(447,696)	(341,282)
Contribution deficiency (excess)	\$ -	\$ -
Covered - employee payroll	\$ 3,633,568	\$ 3,403,024
Contributions as a percentage of covered - employee payroll	12.32%	10.03%

Notes to Schedule:

Valuation Date                      6/30/2013

Methods and Assumptions Used to Determine Contribution Rates:

Cost-sharing employers	Entry age**
Amortization method	Level percentage of payroll, closed**
Asset valuation method	Market Value***
Inflation	2.75%**
Salary increases	Depending on age, service, and type of employment**
Investment rate of return	7.50%, net of pension plan investment expense, including inflation**
Retirement age	50 years (2%@55 and 2%@60), 52 years (2%@62) **
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 five 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 first year of implementation, therefore, only two years are shown.

\*\* - The valuation for June 30, 2012 (applicable to fiscal year ended June 30, 2015) included the same actuarial assumptions.

\*\*\* - The valuation for June 30, 2012 (applicable to fiscal year ended June 30, 2015) valued assets using a 15 Year Smoothed Market method.

LAGUNA BEACH COUNTY WATER DISTRICT

OTHER POST-EMPLOYMENT BENEFITS PLAN  
SCHEDULE OF FUNDING PROGRESS

For the year ended June 30, 2016

**Retiree Health Plan**

Actuarial Valuation Date	Actuarial Accrued Liability (AAL) (a)	Actuarial Value of Assets (AVA) (b)	Unfunded Actuarial Accrued Liability (UAAL) (a) - (b)	Funded Ratio (b)/(a)	Annual Covered Payroll (c)	UAAL as a Percentage of Payroll [(a)-(b)]/(c)
07/01/09	\$ 995,637	\$ -	\$ 995,637	0.00%	\$ 2,962,352	33.61%
07/01/12	\$ 860,224	\$ -	\$ 860,224	0.00%	\$ 3,479,088	24.73%
07/01/15	\$ 1,195,976	\$ -	\$ 1,195,976	0.00%	\$ 3,633,568	32.91%



WHITE NELSON DIEHL EVANS LLP  
Certified Public Accountants & Consultants

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, 2016, 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 12, 2016.

**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*.

We noted certain matters that we have reported to management and the Board of Directors in a separate letter dated December 12, 2016.

**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 12, 2016

AUDITOR-CONTROLLER  
JAN 24 2017

~~JAN 4 8 2017  
AUDITOR-CONTROLLER~~