# BASIC FINANCIAL STATEMENTS

WITH REPORT ON AUDIT
BY INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

**JUNE 30, 2013** 

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#### INDEPENDENT AUDITORS' REPORT

Board of Directors El Toro Water District Lake Forest, California

We have audited the accompanying statement of net position of El Toro Water District (the District) as of June 30, 2013, and the related statement of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the basic 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 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 El Toro Water District as of June 30, 2013 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 Matters**

As discussed in Note 2d to the basic financial statements, the District incorporated deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure of net position due to the adoption of Governmental Accounting Standards Board's Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position". The adoption of this standard also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Our opinion is not modified with respect to this matter.

As discussed in Note 2d to the basic financial statements, the District has changed its method for accounting and reporting certain items previously reported as assets or liabilities during fiscal year 2012-2013 due to the adoption of Governmental Accounting Standards Board's Statement No. 65, "Items Previously Reported as Assets and Liabilities". Our opinion is not modified with respect to this matter.

#### Other Matters:

### Summarized Comparative Information

We have previously audited the El Toro Water District's 2012 financial statements, and our report dated December 11, 2012, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements for which it has been derived.

## Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of funding progress - other post-employment benefit plan, as identified in the accompanying table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance on them.

White Nelson Diehl Tuans UP

Irvine, California November 6, 2013

#### MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

This section of the District's annual financial report presents our analysis of the District's financial performance during the fiscal year that ended on June 30, 2013. Please read it in conjunction with the basic financial statements, which follow this section.

#### FINANCIAL HIGHLIGHTS

The financial highlights presented below, for fiscal years 2012 and 2013 are explained more fully in the body of this section.

## Fiscal Year 2013

- The District's net position increased by \$2,341,738 or 3.55 percent.
- During the year the District's total revenues increased to \$26,997,366 or 18.67 percent, and expenses increased to \$24,685,269 or 9.72 percent from the prior year.
- Capital contributions to the District decreased to \$29,641 or 76.11 percent.

#### Fiscal Year 2012

- The District's net position increased by \$375,824 or 0.57 percent.
- During the year the District's total revenues increased to \$22,750,433 or 9.43 percent, and expenses increased to \$22,498,680 or 3.96 percent from the prior year.
- Capital contributions to the District increased to \$124,071 or 17.94 percent.

#### OVERVIEW OF THE FINANCIAL STATEMENTS

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

#### REQUIRED FINANCIAL STATEMENTS

The Basic 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 reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

See independent auditors' report.

# MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2013

#### FINANCIAL ANALYSIS OF THE DISTRICT

Management's analysis of the District begins on page 12 of the Basic Financial Statements. One of the most important questions asked about the District's finances is "Is the District operating as planned (budgeted) and is the plan representative of prudent fiscal management and meeting the goals of the governing board?" 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 an 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 governmental legislation.

# MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2013

#### NET POSITION

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

TABLE 1 Condensed Statements of Net Position

	Fiscal	Fiscal		Fiscal	
	Year	Year	Dollar	Year	Dollar
	2013	2012	Change	2011	Change
Assets:					<del>-</del>
Current and other assets	\$ 23,042,440	\$ 26,930,842	\$ (3,888,402)	\$ 25,659,869	\$ 1,270,973
Capital assets	60,520,579	54,669,837	5,850,742	53,136,209	1,533,628
Total Assets	83,563,019	81,600,679	1,962,340	78,796,078	2,804,601
Liabilities:					
Noncurrent liabilities	9,656,196	10,884,611	(1,228,415)	9,601,166	1,283,445
Other liabilities	5,524,438	4,675,421	849,017	3,530,089	1,145,332
Total Liabilities	15,180,634	15,560,032	(379,398)	13,131,255	2,428,777
Net Position:					
Net investiment in					
capital assets	53,386,647	45,207,184	8,179,463	44,623,580	583,604
Restricted	3,356,581	5,109,690	(1,753,109)	4,657,372	452,318
Unrestricted	11,639,157	15,723,773	(4,084,616)	16,383,871	(660,098)
Total Net Position	\$ 68,382,385	\$ 66,040,647	\$ 2,341,738	\$ 65,664,823	\$ 375,824

As can be seen from Table 1, net position increased by \$2,341,738 from fiscal year 2012 to 2013. Looking more carefully at the table you can see that the three components of the change consisted of net investment in capital assets, restricted net position and unrestricted net position in fiscal year 2013.

A further review of net position shows that net investment in capital assets increased by \$8,179,463 due to the District's continued investment in capital facilities and infrastructure. Restricted net position (those established by debt covenants, enabling legislation, or other legal requirements), experienced a decrease of \$1,753,109 in fiscal year 2013 due to the satisfaction of the sinking fund requirements and prepayment of debt obligations with designated funds in the standby fee account. Finally, unrestricted net position decreased by \$4,084,616, due to utilization of working capital during construction in anticipation of the receipt of debt proceeds.

# MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2013

## **NET POSITION (CONTINUED)**

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

	Fiscal Year 2013	Fiscal Year 2012	Dollar Change	Fiscal Year 2011	Dollar Change
Revenues:					
Operating revenues	\$ 22,592,576	\$ 21,323,356	\$ 1,269,220	\$ 19,483,679	\$ 1,839,677
Nonoperating revenues	4,404,790	1,427,077	2,977,713	1,306,720	120,357
Total Revenues	26,997,366	22,750,433	4,246,933	20,790,399	1,960,034
Expenses:					
Depreciation expense	2,816,753	2,831,917	(15,164)	2,773,965	57,952
Operating expenses	19,969,213	19,179,039	790,174	18,346,669	832,370
Nonoperating expenses	1,899,303	487,724	1,411,579	521,469	(33,745)
Total Expenses	24,685,269	22,498,680	2,186,589	21,642,103	856,577
Income (loss) before capital contributions	2,312,097	251,753	2,060,344	(851,704)	1,103,457
Capital contributions	29,641	124,071	(94,430)	105,199	18,872
Change in Net Position	2,341,738	375,824	2,060,344	(746,505)	1,103,457
Beginning Net Position	66,040,647	65,664,823	375,824	66,411,328	(746,505)
Ending Net Position	\$ 68,382,385	\$ 66,040,647	\$ 2,436,168	\$ 65,664,823	\$ 356,952

While the Statements of Net Position show the change in financial position, the Statements of Revenues, Expenses and Changes in Net Position provide answers as to the nature and source of these changes. As can be seen in Table 2, income before capital contributions of \$2,312,097 and capital contributions of \$29,641 resulted in an increase in net position of \$2,341,738 in fiscal year 2013.

A closer examination of the source of changes in net position reveals that the District's operating revenues increased by \$1,269,220 in fiscal year 2013 due to an increase in water sales and rate increases. In addition, nonoperating revenues increased by \$2,977,713 in fiscal year 2013 due to an increase in grant funding. Capital contributions decreased by \$94,430 due to decreased developer activity. Total costs increased by \$2,186,589 in fiscal year 2013 driven by operation cost increase due to labor and inflation along with the settlement of the sinking fund obligation changed to non-operating expenses.

See independent auditors' report.

# MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2013

#### **BUDGETARY HIGHLIGHTS**

TABLE 3 Budget vs. Actual

	Fiscal Year 2013			
	Actual	Budget (1)	Variance	
Revenues:				
Operating revenues	\$ 22,592,576	\$ 21,536,721	\$ 1,055,855	
Nonoperating revenues	4,404,790	1,131,000	3,273,790	
Total Revenues	26,997,366	22,667,721	4,329,645	
Expenses:				
Operating Expenses:				
Sources of supply	163,259	156,289	(6,970)	
Purchased water	8,390,955	7,949,948	(441,007)	
Pumping	1,232,213	1,180,772	(51,441)	
Treatment	2,831,190	2,626,617	(204,573)	
Transmission and distribution	4,160,251	3,832,001	(328,250)	
Customer accounts	438,053	406,796	(31,257)	
General and administrative	2,753,292	2,763,146	9,854	
Depreciation	2,816,753	2,906,850	90,097	
Nonoperating expenses	1,899,303	515,000	(1,384,303)	
Total Expenses	24,685,269	22,337,419	(2,347,850)	
Loss Before Capital Contributions	2,312,097	330,302	1,981,795	
Capital Contributions	29,641		29,641	
Change in Net Position	\$ 2,341,738	\$ 330,302	\$ 2,011,436	

(1) 2013 budget amounts include certain reclassifications to conform to fiscal year 2013 actual.

The variances on the budget to actual comparison within operating revenue are due to increased water sales.

The variances on the budget to actual comparison within operating expenses are due to increases in actual water sales when compared to budget along with increase in budget labor costs associated with obligations for post retirement benefits. Nonoperating revenues included unbudgeted grant funding while nonoperating expense included the settlement of the sinking fund obligation.

See independent auditors' report.

# MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2013

#### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### **CAPITAL ASSETS**

At the end of fiscal year 2013 the District had invested \$60,520,579 in a broad range of infrastructure as shown in Table 4.

TABLE 4
Capital Assets

	Fiscal Year 2013	Fiscal Year 2012	Dollar Change	Fiscal Year 2011	Dollar Change
Capital assets, not being					
depreciated:					
Land and easements	\$ 7,451,586	\$ 7,451,586	\$ -	\$ 7,451,586	\$ -
Construction in progress	14,522,547	6,888,751	7,633,796	3,887,618	3,001,133
Total capital assets,					
not being depreciated	21,974,133	14,340,337	7,633,796	11,339,204	3,001,133
Capital assets, being depreciated:					
Capacity rights	342,382	342,382	-	342,382	-
Sources of supply	19,755,564	19,653,309	102,255	19,632,044	21,265
Pumping	11,787,446	11,693,043	94,403	11,457,469	235,574
Treatment	31,478,046	31,169,210	308,836	30,516,176	653,034
Transmission and collection	17,515,094	18,719,725	(1,204,631)	18,574,156	145,569
General plant facilities	11,698,130	12,678,056	(979,926)	12,574,780	103,276
Total capital assets,					
being depreciated	92,576,662	94,255,725	(1,679,063)	93,097,007	1,158,718
Less accumulated depreciation	(54,030,216)	(53,926,225)	(103,991)	(51,300,002)	(2,626,223)
Total capital assets,					
being depreciated, net	38,546,446	40,329,500	(1,783,054)	41,797,005	(1,467,505)
					<u> </u>
Total capital assets, net	\$ 60,520,579	\$ 54,669,837	\$ 5,850,742	\$ 53,136,209	\$ 1,533,628

The capital assets additions for fiscal year 2013 were in accordance with the District's budgeted capital improvement program and included the significant Northline Pump Station Project.

Additional detail about capital assets is shown in Note 6 to the basic financial statements.

# MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2013

#### CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

#### DEBT ADMINISTRATION

At year-end, the District had \$7,133,932 in long-term liabilities down from \$9,462,653 in fiscal year 2012 for a decrease of \$2,328,721 or 24.61 percent, which was the amount of fiscal year 2013 principal payments (including the prepayment of an outstanding bond obligation) on outstanding debt net of additional borrowings on the State Revolving Fund loan. The District plans additional state revolving fund loan borrowing to fund the recycled water treatment and distribution project and private placement borrowing to fund the District's participation in the Baker Water Treatment Project

TABLE 5 Long-Term Liabilities

	Fiscal Year 2013	Fiscal Year 2012	Dollar Change	Fiscal Year 2011	Dollar Change
Bonds payable Installment payment agreements Main extension contracts State revolving fund loans	\$ - 621,878 6,180 6,505,874	\$ 775,270 1,760,588 6,180 6,920,615	\$ (775,270) (1,138,710) - (414,741)	\$ 843,270 2,772,316 6,180 4,890,863	\$ (68,000) (1,011,728) - 2,029,752
	\$ 7,133,932	\$ 9,462,653	\$(2,328,721)	\$ 8,512,629	\$ 950,024

Additional detail on long-term liabilities is shown in Note 7 to the basic financial statements.

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

The District's Board of Directors and management considered many factors when setting the fiscal year 2014 budget, user fees, and charges. One of those factors is the economy. The District's customer base has not changed significantly.

Inflation in the area continues to be somewhat higher than the National Consumer Price Index (CPI) increase. The District uses the Regional All Urban Consumer Index when considering employment cost increases. It also considers the index when passing along increases in user fees.

These indicators along with the balance in existing cash reserves were taken into consideration when adopting the District's budget for fiscal year 2014.

# MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2013

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES (CONTINUED)

TABLE 6 Fiscal Year 2013 Actual vs. Fiscal Year 2014 Budget

	Fiscal Year	Fiscal Year	
	2013	2014	
	Actual	Budget (1)	Variance
Revenues:			
Operating revenues	\$ 22,592,576	\$ 21,750,912	\$ (841,664)
Nonoperating revenues	4,404,790	1,014,000	(3,390,790)
Total Revenues	26,997,366	22,764,912	(4,232,454)
Expenses:			
Operating Expenses:			
Sources of supply	163,259	155,117	8,142
Purchased water	8,390,955	8,342,158	48,797
Pumping	1,232,213	1,249,978	(17,765)
Treatment	2,831,190	2,748,989	82,201
Transmission and distribution	4,160,251	3,971,907	188,344
Customer accounts	438,053	453,677	(15,624)
General and administrative	2,753,292	2,889,628	(136,336)
Depreciation	2,816,753	2,906,850	(90,097)
Nonoperating expenses	1,899,303	461,990	1,437,313
Total Expenses	24,685,269	23,180,294	1,504,975
Loss Before Capital Contributions	2,312,097	(415,382)	(2,727,479)
Capital Contributions	29,641		(29,641)
Change in Net Position	\$ 2,341,738	\$ (415,382)	\$ (2,757,120)

(1) 2014 budget amounts include certain reclassifications to conform to fiscal year 2013 actual.

#### 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 Michael P. Grandy, Assistant General Manager/CFO at El Toro Water District.

# **BASIC FINANCIAL STATEMENTS**

### STATEMENT OF NET POSITION

June 30, 2013 (With comparative totals as of June 30, 2012)

		2013	2012
ASSETS			
CURRENT ASSETS:			
Unrestricted:			
Cash and cash equivalents (Note 3)	\$	5,255,781	\$ 9,627,699
Cash and investments (Note 3)		8,026,812	7,055,232
Receivables, net:			
Customer accounts		2,224,826	2,609,976
Taxes		18,222	77,697
Interest		33,514	41,532
Notes (Note 5)		58,535	1,304,261
Other		3,089,385	48,675
Inventories (Note 4)		600,195	582,350
Prepaid expenses		103,023	100,529
Restricted:			
Cash and cash equivalents (Note 3)		3,427,601	 5,219,810
TOTAL CURRENT ASSETS		22,837,894	 26,667,761
NONCURRENT ASSETS:			
Notes receivable (Note 5)		204,546	263,081
Capital assets (Note 6):			
Non-depreciable		21,974,133	14,340,337
Depreciable, net of accumulated depreciation		38,546,446	 40,329,500
TOTAL NONCURRENT ASSETS	h	60,725,125	 54,932,918
TOTAL ASSETS		83,563,019	 81,600,679
			(Continued)

# STATEMENT OF NET POSITION (CONTINUED)

June 30, 2013 (With comparative totals as of June 30, 2012)

	2013	2012
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	\$ 4,021,283	\$ 2,548,910
Accrued payroll liabilities	95,037	91,910
Deposits	30,995	36,850
Current portion of long-term debt (Note 7)	1,306,103	1,887,631
TOTAL CURRENT LIABILITIES	5,453,418	4,565,301
CURRENT LIABILITIES PAYABLE FROM		
RESTRICTED ASSETS:		
Interest payable	71,020	110,120
NON-CURRENT LIABILITIES:		
Compensated absences	1,220,984	1,248,772
Accrued other post-employment	, ,	
benefits (OPEB) liability (Notes 7 and 9)	2,607,383	2,060,817
Non-current portion of long-term debt (Note 7)	5,827,829	7,575,022
TOTAL NON-CURRENT LIABILITIES	9,656,196	10,884,611
TOTAL LIABILITIES	15,180,634	15,560,032
NET POSITION		
Net investment in capital assets (Note 11)	53,386,647	45,207,184
Restricted (Note 11):		
Debt service	3,356,581	3,888,332
Capital projects	-	1,221,358
Unrestricted	11,639,157	15,723,773
TOTAL NET POSITION	\$ 68,382,385	\$ 66,040,647

# STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the year ended June 30, 2013 (With comparative totals for the year ended June 30, 2012)

	2013	2012
OPERATING REVENUES:		
Water sales	\$ 15,293,372	\$ 13,902,298
Waste water sales	6,129,321	5,882,300
Standby charges	984,847	970,517
Reimbursements from others	117,364	171,014
Other revenues	67,672	397,227
TOTAL OPERATING REVENUES	22,592,576	21,323,356
OPERATING EXPENSES:		
Source of supply	163,259	206,819
Purchased water	8,390,955	7,889,285
Pumping	1,232,213	1,096,347
Treatment	2,831,190	2,688,844
Transmission and distribution	4,160,251	4,124,778
Customer accounts	438,053	440,218
General and administrative	2,753,292	2,732,748
Depreciation and amortization	2,816,753	2,831,917
TOTAL OPERATING EXPENSES	22,785,966	22,010,956
OPERATING LOSS	(193,390)	(687,600)
NONOPERATING REVENUES (EXPENSES):		
Investment income	124,439	208,446
Property taxes	753,865	691,377
Grant income	3,062,505	14
Other revenue	463,981	527,254
Other expenses	(1,571,619)	-
Interest expense and fiscal agent charges	(327,684)	(487,724)
TOTAL NONOPERATING REVENUES (EXPENSES)	2,505,487	939,353
NET INCOME (LOSS) BEFORE		
CAPITAL CONTRIBUTIONS	2,312,097	251,753
CAPITAL CONTRIBUTIONS	29,641	124,071
CHANGES IN NET POSITION	2,341,738	375,824
NET POSITION - BEGINNING OF YEAR	66,040,647	65,664,823
NET POSITION - END OF YEAR	\$ 68,382,385	\$ 66,040,647

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

# STATEMENT OF CASH FLOWS

# For the year ended June 30, 2013 (With comparative totals for the year ended June 30, 2012)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES: Receipts from customers Payments to suppliers for operations Payments for general and administrative expenses Receipts from/(payments to) others NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 21,807,843 (15,767,248) (2,231,387) 1,189,184 4,998,392	\$ 18,873,729 (15,723,668) (2,083,178) 1,665,120 2,732,003
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:		
Property taxes collected Other expenses Other revenue NET CASH PROVIDED (USED) BY NONCAPITAL	813,340 (1,571,619) 463,981	527,254
AND RELATED FINANCING ACTIVITIES	(294,298)	1,211,866
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: Acquisition of capital assets, net Proceeds from long-term debt Repayment of long-term debt Interest payments Capital contributions	(8,667,495) 260,001 (2,588,722) (366,784) 29,641	(4,365,547) 2,533,850 (1,583,826) (409,041) 124,071
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(11,333,359)	(3,700,493)
CASH FLOWS FROM INVESTING ACTIVITIES: Sale/purchase of investments, net Interest received Payment received from notes receivable NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(971,580) 132,457 1,304,261 465,138	(2,513,686) 199,803 1,252,375 (1,061,508)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(6,164,127)	(818,132)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	14,847,509	15,665,641
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 8,683,382	\$ 14,847,509
FINANCIAL STATEMENT PRESENTATION: Unrestricted Restricted TOTAL CASH AND INVESTMENTS	\$ 5,255,781 3,427,601 \$ 8,683,382	\$ 9,627,699 5,219,810 \$ 14,847,509
See independent auditors' report and notes to basic financial stater	ments.	(Continued)

# STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended June 30, 2013 (With comparative totals for the year ended June 30, 2012)

	2013		2012	
RECONCILIATION OF OPERATING LOSS TO NET				
CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating loss	\$	(193,390)	\$	(687,600)
Adjustment to reconcile operating loss to net				_
cash provided by operating activities:				
Depreciation and amortization		2,816,753		2,831,917
Changes in assets and liabilities:				
(Increase) decrease in customer accounts receivable		385,150		(910,869)
(Increase) decrease in other receivables		21,795		123,905
(Increase) decrease in inventories		(17,845)		(52,219)
(Increase) decrease in prepaid expenses		(2,494)		2,457
Increase (decrease) in accounts payable		1,472,373		773,094
Increase (decrease) in accrued payroll liabilities		3,127		18,524
Increase (decrease) in deposits		(5,855)		1,748
Increase (decrease) in compensated absences		(27,788)		51,256
Increase (decrease) in accrued OPEB liability		546,566		579,790
Total adjustments		5,191,782		3,419,603
NET CASH PROVIDED BY				
OPERATING ACTIVITIES	\$	4,998,392	\$	2,732,003

#### NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2013

#### 1. ORGANIZATION AND DESCRIPTION OF THE REPORTING ENTITY:

The El Toro Water District (the District) was organized under the provisions of the California Water District Law (Division 13, Sections 34000 et. seq. of the Water Code of the State of California) in September of 1960. The District is governed by a Board of Directors made up of five members elected by the qualified voters in the District. The District was formed to finance, construct, operate, and maintain a water and wastewater system to serve properties within the District's boundaries. Metropolitan Water District, through the Municipal Water District of Orange County, is the sole supplier of water to the District.

The El Toro Water District Public Facilities Corporation (the Corporation) was organized on May 21, 1993 pursuant to the Non-Profit Public Benefit Corporation Law of the State of California (Title 1, Division 2, Part 2 of the California Corporation Code), solely for the purpose of providing financial assistance to the District.

The reporting entity "El Toro Water District" includes the accounts of the District and Corporation. The District is the primary government unit. Component units are those entities which are financially accountable to the primary government, either because the District appoints a voting majority of the component unit's Board, or because the component unit will provide a financial benefit or impose a financial burden on the District. The District has accounted for the Corporation as a "blended" component unit because the services provided by the Corporation are financing services provided solely for the District and the Corporation is administered by the District who maintains financial accountability. Also, the District's Board of Directors acts as the Corporation's governing board. Despite being legally separate, this entity is so intertwined with the District that it is, in substance, part of the District's operations. Accordingly, the transactions of this component unit are reported within the District. The Corporation has one asset account (receivable) and one liability account (debt), and no operating expenses. There are no separate financial statements for the Corporation.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

#### a. Basic Financial Statements:

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

# NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED):

#### b. Basis of Presentation:

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

### c. Measurement Focus and Basis of Accounting:

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

#### d. GASB Pronouncements - Implemented:

In fiscal year 2012-2013, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position". This statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, "Elements of Financial Statements" into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new Statement of Net Position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

# NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

### d. GASB Pronouncements - Implemented (Continued):

In fiscal year 2012-2013, the District early implemented GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities". This statement established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. The implementation of this statement did not result in any reclassification of assets or liabilities due to deferred outflows of resources or deferred inflows of resources.

### e. GASB Pronouncements - Pending Accounting Standards:

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

- GASB 66 "Technical Corrections, an amendment of GASB Statement No. 10 and Statement No. 62", effective for periods beginning after December 15, 2012.
- GASB 67 "Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25", effective for the fiscal years beginning after June 15, 2013.
- GASB 68 "Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27", effective for the fiscal years beginning after June 15, 2014.
- GASB 69 "Government Combinations and Disposals of Government Operations", effective for periods beginning after December 15, 2013.
- GASB 70 "Accounting and Financial Reporting for Nonexchange Financial Guarantees", effective for the periods beginning after June 15, 2013.

#### 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 a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District does not have deferred outflows of resources.

# NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

### f. Deferred Outflows/Inflows of Resources (Continued):

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 a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The District does not have deferred inflows of resources.

### g. Net Position Flow Assumption:

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

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

#### h. Cash, Cash Equivalents and Investments:

<u>Cash and Cash Equivalents</u> - The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. The short-term investments include the California Local Agency Investment Fund (LAIF) and California Asset Management Program (CAMP).

Investment Valuation - Investments are stated at fair market value.

State Investment Pool - The District participates in the LAIF, an investment pool managed by the State of California. LAIF has invested a portion of the pooled funds in Structured Notes and Asset-Backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-Backed Securities are subject to market risk as a result of changes in interest rates.

<u>Restricted Cash and Investments</u> - Amounts shown as restricted assets have been restricted by either bond indentures, law, or contractual obligations to be used for specific purposes, such as servicing bonded debt and construction of capital assets.

# NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

### h. Cash, Cash Equivalents and Investments (Continued):

<u>Deposit and Investment Risk Disclosures</u> - In accordance with GASB Statement No. 40, "Deposit and Investment Disclosures (Amendment of GASB No. 3)", certain disclosure requirements, if applicable, are made for deposits and investment risks in the following areas:

- Interest Rate Risk
- Overall Credit Risk
- Custodial Credit Risk
- Concentrations of Credit Risk
- Foreign Currency Risk

In addition, other disclosures are specified, including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end, and other disclosures.

#### 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 a bad debt expense. A charge of \$18,853 and \$16,600 were made to bad debt expense for the fiscal years ended June 30, 2013 and 2012, respectively.

### j. Inventories:

Inventories of materials, supplies, and water in storage are valued at historical costs and stated on a first-in, first-out basis.

#### k. Prepaid Expenses:

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

#### 1. Capital Assets:

Capital assets are stated at cost, net of accumulated depreciation, except for the portions acquired by contribution, which are recorded at fair value at the time received. District policy has set the capitalization threshold for reporting capital assets at \$5,000.

# NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

#### 1. Capital Assets (Continued):

Depreciation is based on the estimated useful lives for those asset acquisitions that exceed the capitalization threshold as follows:

	Capitalization	Estimated
	Threshold	<u>Useful Life</u>
Water Facilities:		
Reservoir	\$ 5,000	100 years
Transmission and distribution	5,000	20 to 60 years
Filtration plant	5,000	30 to 40 years
Other plant and equipment	5,000	5 to 15 years
Sanitation Facilities:		
Collection and transmission	5,000	15 to 50 years
Treatment and disposal plant	5,000	15 to 30 years
Other plant and equipment	5,000	5 to 15 years

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

#### m. Claims and Judgments:

An estimated loss is recorded, net of insurance coverage, and inclusive of an estimate for incurred but unreported claims, when it is probable that a claim liability has been incurred and the amount of the loss can be reasonably estimated.

### n. Compensated Absences:

The District has a policy whereby an employee can accumulate unused sick leave and vacation. The vacation policy allows employees hired prior to July 1, 1997 to accumulate up to a maximum of 160 hours, and up to a maximum of 240 hours if hired after July 1, 1997; any hours exceeding these maximums will be paid to the employees annually at their then current pay rate. The sick leave policy allows employees to accumulate up to a maximum of 960 hours. At the end of each calendar year, accumulated sick leave over 960 hours will be transferred to vacation time for employees hired prior to July 1, 1997 and paid out at 50% to those hired after July 1, 1997 at the then current pay rate. A factor of 5% times the number of complete years of employment will be applied to the hours accumulated over 960 to determine the number of hours to be transferred or paid out. The balance at June 30, 2013 for sick leave and vacation was \$1,220,984 and was included in the accompanying Statement of Net Position.

# NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

#### o. Property Taxes:

Property taxes in California are levied in accordance with Article XIIIA of the State Constitution at 1% of countywide assessed valuations. This levy is allocated pursuant to state law to the appropriate units of local governments. In addition, the District has a standby charge in place to meet the District's future obligations under the State Water Resources Control Board State Revolving Fund loan program and Installment Purchase Agreement. Property tax revenue is recognized in the fiscal year in which taxes are levied.

The property tax calendar is as follows:

Lien date: January 1
Levy date: July 1

Due dates: First installment - November 10

Second installment - February 10

Delinquent dates: First installment - December 11

Second installment - April 11

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

November 21	7% - 10%
December 13	10% - 15%
December 21	20% - 25%
January 23	10% - 15%
March 21	5% - 7%
April 19	15% - 20%
May 21	10% - 15%
July 16	1% - 2%

#### p. Capital Contributions:

The amounts of contributions by developers are recorded as revenues in accordance with GASB Statement No. 33, "Accounting and Financial Reporting for Non-Exchange Transactions".

# NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

#### q. Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### r. Prior Year Data:

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the District's prior year financial statements, from which this selected financial data was derived.

#### 3. CASH AND INVESTMENTS:

#### **Cash and Investments:**

Cash and investments as of June 30, 2013 are presented on the Statement of Net Position as follows:

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Cash and cash equivalents Cash and investments	\$	5,255,781 8,026,812
Restricted: Cash and cash equivalents		3,427,601
	<u>\$</u>	16,710,194

Restricted cash and cash equivalents as of June 30, 2013 consisted of the following:

Debt service \$ 3.427.601

# NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013

### 3. CASH AND INVESTMENTS (CONTINUED):

### Cash and Investments (Continued):

Cash and investments as of June 30, 2013 consisted of the following:

Demand Deposits:		
Cash deposits	\$	470,554
Escrow deposit		83,722
Petty cash		700
Total demand deposits	, <u>.</u>	554,976
Investments:		
United States Government Sponsored Agency Securities		7,031,265
U.S. Treasury Obligations		995,547
California Asset Management Program (CAMP)		754,875
California Local Agency Investment Fund (LAIF)		7,373,531
Total investments		16,155,218
Total cash and investments	<u>\$</u>	16,710,194

# 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.

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

# NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013

# 3. CASH AND INVESTMENTS (CONTINUED):

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

	Maximum	Maximum Percentage	Maximum Investment
Authorized Investment Type	<u>Maturity</u>	of *Portfolio	in One Issuer
United States Treasury Obligations	5 years	None	None
United States Government Sponsored Agency Securities	5 years	None	None
Municipal debt	5 years	10%	None
Medium Term Notes	5 years	15%	None
Commercial paper	270 days	10%	10% of outstanding paper of issuer
Bankers Acceptance	180 days	15%	None
Negotiable Certificates of Deposit	1 year	30%	None
Money Market Funds	N/A	10%	None
California Local Agency Investment Fund (LAIF)	N/A	\$30 Million	None
California Asset Management Program (CAMP)	N/A	50%	None

# NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013

### 3. CASH AND INVESTMENTS (CONTINUED):

#### **Investments Authorized by Debt Agreements:**

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

Authorized Investment Type United States Treasury Obligations	Maximum  Maturity  None	Maximum Percentage Allowed None	Maximum Investment in One Issuer None
United States Government Sponsored Agency Securities	None	None	None
Municipal debt	None	None	None
Bankers Acceptance	None	None	None
Certificates of Deposit	None	None	None
Money Market Funds	None	None	None
Repurchase Agreements	None	None	None
Investment Agreements	None	None	None

### Disclosures Relating to Interest Rate Risk:

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

# NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013

### 3. CASH AND INVESTMENTS (CONTINUED):

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

Information about the sensitivity of the fair values of the District's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity as of June 30, 2013.

	Years)			
	Less Than	1 to 2	Over	
Investment Type	1 Year	Years	2 Years	Total
United States Government Sponsored				
Agency Securities:				
Federal Home Loan Mortgage Corporation	\$ 1,007,566	\$ 1,029,014	\$ -	\$ 2,036,580
Federal National Mortgage Association	1,001,469	-	1,995,722	2,997,191
Federal Home Loan Bank	-	998,587	998,907	1,997,494
U.S. Treasury Obligations	-	-	995,547	995,547
CAMP	754,875	_	-	754,875
LAIF	7,373,531		-	<u>7,373,531</u>
	<u>\$ 10,137,441</u>	\$ 2,027,601	\$ 3,990,176	<u>\$ 16,155,218</u>

#### **Disclosures Relating to Credit Risk:**

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

	Minimum		Total								Not
	Legal		June 30,								Required
Investment Type	_Rating_		2013	_	AAA		AA+	_	Unrated	_t	o be Rated
United States Government											
Sponsored Agency Securities	:										
Federal Home Loan											
Mortgage Corporation	N/A	\$	2,036,580	\$	-	\$	2,036,580	\$	-	\$	-
Federal National Mortgage											
Association	N/A		2,997,191		-		2,997,191		-		-
Federal Home Loan Bank	N/A		1,997,494		_		1,997,494		-		-
U.S. Treasury Obligations	N/A		995,547		=		-		-		995,547
CAMP	N/A		754,875		754,875		-		-		-
LAIF	N/A	_	7,373,531	_	_		-		7,373,531		
		\$	16,155,218	<u>\$</u>	754,875	<u>\$</u>	7,031,265	\$	7,373,531	<u>\$</u>	995,547

See independent auditors' report.

# NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013

### 3. 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. Investments in any one issuer that represents 5% or more of total District's investments as of June 30, 2013 are as follows:

Issuer	Investment Type		Amount	Percent
Federal Home Loan	United States Government			
Mortgage Corporation	Sponsored Agency Securities	\$	2,036,580	12.61 %
Federal National	United States Government			
Mortgage Association	Sponsored Agency Securities	\$	2,997,191	18.55 %
Federal Home	United States Government			
Loan Bank	Sponsored Agency Securities	\$	1,997,494	12.36%

#### **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.

The carrying amount of the District's cash deposits was \$470,554 at June 30, 2013. At June 30, 2013, total bank balances of deposits in the amount of \$500,670 were fully insured by the Federal Deposit Insurance Corporation or collateralized as required by California law.

# NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013

### 3. CASH AND INVESTMENTS (CONTINUED):

#### Investment in California Asset Management Program:

The California Asset Management Program (the CAMP) is a public joint powers authority which provides California Public Agencies with investment management services for surplus funds and comprehensive investment management, accounting and arbitrage rebate calculation services for proceeds of tax-exempt financings. The CAMP currently offers the Cash Reserve Portfolio, a short-term investment portfolio, as a means for Public Agencies to invest these funds. Public Agencies that invest in the Pool (Participants) purchase shares of beneficial interest. Participants may also establish individual, professionally managed investment accounts (Individual Portfolios) by separate agreement with the Investment Advisor. The District has a separate account with the Investment Advisor to manage part of the CAMP portfolio which consists of \$7,031,265 of United States Government Sponsored Agency Securities and \$995,547 of U.S. Treasury Obligations.

Investments in the Pools and Individual Portfolios are made only in investments in which Public Agencies generally are permitted by California statute. The CAMP may reject any investment and may limit the size of a Participant's account. The Pool seeks to maintain, but does not guarantee, a constant net asset value of \$1.00 per share. A Participant may withdraw funds from its Pool accounts at any time by check or wire transfers. Requests for wire transfers must be made by 9:00 a.m. that day. Fair value of the Pool is determined by the fair value per share of the Pool's underlying portfolio.

#### **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.

# NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013

#### 4. INVENTORIES:

Inventories consisted of the following as of June 30, 2013:

Unleaded gasoline	\$ 7,174
Diesel fuel	39,650
Material and supplies	227,746
Water in storage	325,625
Total	<u>\$ 600,195</u>

#### 5. NOTES RECEIVABLE:

The following is a summary of notes receivable at June 30, 2013:

	I	Balance			Balance									
	Jul	July 1, 2012 Additions			Deletions	Deletions June 30, 2013			Current	Long-Term				
Metropolitan Water														
District of Southern														
California -														
Allen-McColloch Pipeline	\$	317,342	\$	-	\$	(54,261)	\$	263,081	\$	58,535	\$	204,546		
Santa Margarita														
Water District:														
Capacity sale		769,231		-		(769,231)		-		-		-		
Option sale		480,769			_	(480,769)	_			-	_			
Total	\$	1,567,342	\$		\$	(1,304,261)	\$	263.081	<u>\$</u>	<u> 58,535</u>	\$	204,546		

## a. Metropolitan Water District of Southern California - Allen-McColloch Pipeline:

Effective July 1, 1994, Municipal Water District of Orange County (MWDOC) and the participants, including the District, of the Allen-McColloch Pipeline (AMP) Project and facilities sold the AMP Project and facilities to Metropolitan Water District of Southern California (Metropolitan). The terms of the overall sale consisted of three components paid by (1) an initial payment of \$11,000,000, (2) \$59,800,000 to be paid in annual installments of \$4,600,000 plus interest commencing July 1, 1994 through and including July 1, 2006, and (3) principal and interest on the 1989 Certificates of Participation issued by MWDOC.

Pursuant to the agreement, the District's portion of the annual installments is recorded as a note receivable in the amount of \$263,081 at June 30, 2013. There is no fixed payment schedule of the note receivable. Estimated future maturities in the amount of \$58,535 are anticipated for the year ending June 30, 2014.

# NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013

### 5. NOTES RECEIVABLE (CONTINUED):

#### b. Santa Margarita Water District:

On March 20, 2000 the District entered into an agreement to sell one half of the R6 Reservoir capacity (358 acre feet), together with such additional capacity as may be available in the future, for the sum of \$11,200,000 to the Santa Margarita Water District (SMWD). The amount to be paid by SMWD to the District in annual installments was \$800,000 beginning June 14, 2000 and continuing each June 14<sup>th</sup> until 2013. In addition to payment of annual installments, SMWD will also pay ongoing R6 Reservoir operating and maintenance expenses as set forth in the agreement. The monies generated from this sale are to be used primarily for the purpose of reducing the District's water rates within its service areas.

In addition to the benefits of jointly owning capacity in the R6 Reservoir, the potential for the opportunity to secure direct deliveries of water from the Orange County groundwater basin and other potential water transfer projects was a significant consideration for entering into the agreement and establishing the consideration paid for capacity in the R6 Reservoir and the option granted by the District to SMWD.

In addition to the sale of the capacity to SMWD, the District granted an option to SMWD to purchase potable water from the District, within its system connected to SMWD in an amount equivalent to fifty percent of the water which the District actually produces for the Orange County groundwater basin each year provided that the District is not required to sell SMWD an amount greater than two thousand acre feet. As consideration for the option, the District received \$7,000,000 from SMWD irrespective of whether the District will produce groundwater from the Orange County groundwater basin, payable in equal annual installments of \$500,000 per year commencing June 14, 2000 and continuing on June 14<sup>th</sup> each year until paid. SMWD will also construct a connection from its facilities to the R6 Reservoir at its own expense. The District had the right to cancel the option granted to SMWD. If the option is revoked by the District, the District must pay SMWD \$7,000,000 irrespective of the number of payments made by SMWD and reimburse SMWD's actual project costs of constructing the connection from the SMWD's facilities to the R6 Reservoir.

The notes were paid off during the fiscal year.

# NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013

# 6. CAPITAL ASSETS:

Changes in capital assets and accumulated depreciation as of June 30, 2013 were as follows:

			Deletions	
	Balance		or	Balance
	July 1, 2012	Additions	Reclassification	June 30, 2013
Capital assets, not being				
depreciated:				
Land and easements	\$ 7,451,586		\$ -	\$ 7,451,586
Construction in progress	6,888,751	7,633,796		14,522,547
Total capital assets,				
not being depreciated	14,340,337	7,633,796		21,974,133
Capital assets, being				
depreciated:				
Capacity rights	342,382	-	-	342,382
Sources of supply	19,653,309	130,064	(27,809)	
Pumping	11,693,043	232,829	(138,426)	11,787,446
Treatment	31,169,210	395,646	(86,810)	31,478,046
Transmission and collection	18,719,725	9,630	(1,214,261)	
General plant facilities	12,678,056	265,530	(1,245,456)	11,698,130
Total capital assets,				
being depreciated	94,255,725	1,033,699	(2,712,762)	92,576,662
Less accumulated				
depreciation/amortization:				
Capacity rights	(191,774)	(6,846)	-	(198,620)
Sources of supply	(8,579,068)	(366,973)	27,809	(8,918,232)
Pumping	(7,432,378)	(375,665)	138,426	(7,669,617)
Treatment	(19,036,429)			(20,112,096)
Transmission and collection	(8,853,201)			(8,004,170)
General plant facilities	(9,833,375)	(539,562)	1,245,456	(9,127,481)
Total accumulated				
depreciation/amortization	(53,926,225)	(2,816,753)	2,712,762	(54,030,216)
Total capital assets				
being depreciated, net	40,329,500	(1,783,054)	)	38,546,446
Total capital assets, net	\$ 54,669,837	\$ 5,850,742	<u>\$</u>	<u>\$ 60,520,579</u>

Depreciation/amortization expense for the depreciable capital assets was \$2,816,753 for the year ended June 30, 2013.

See independent auditors' report.

# NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013

#### 7. LONG-TERM LIABILITIES:

The following is a summary of long-term liabilities at June 30, 2013:

Balance					Balance							
	J	uly 1, 2012	_	Additions	_	Deletions	Jυ	ine 30, 2013	_	Current	_1	ong-Term
2002 Installment Purchase												
Agreement	\$	775,270	\$	-	\$	(775,270)	\$	-	\$	-	\$	-
Installment Payment												
Agreements		1,760,588		-		(1,138,710)		621,878		621,878		-
Main Extension Contracts		6,180		-		-		6,180		6,180		-
State Revolving Fund												
Loans		6,920,615		260,001		(674,742)		6,505,874		678,045		5,827,829
Compensated absences		1,248,772		-		(27,788)		1,220,984		-		1,220,984
OPEB (see Note 9)		2,060,817	_	692,244		(145,678)		2,607,383	_		_	2,607,383
Total	\$	12,772,242	\$	952,245	\$	(2,762,188)	\$	10,962,299	\$	1,306,103	\$	9,656,196

a. 2002 Installment Purchase Agreement (Modification of 1993 Certificates of Participation Series B) - Refinanced Issue \$1,310,270:

In April 2002, the Installment Purchase Agreement was made for modification of the 1993 Certificates of Participation Series B in the amount of \$1,310,270. Principal is payable annually each May 15 at amounts of \$11,270 to \$188,000 through April 11, 2018. Interest of 4.90% is payable semiannually on May 15 and November 15.

The outstanding balance was paid off during the fiscal year.

#### b. Installment Payment Agreements:

The Installment Payment Agreements are the result of the acquisition of the Laguna Hills Water Company and the Laguna Hills Sanitation, Inc. The agreements provides for annual combined principal and interest payments of \$1,300,000. The payments are for 30 years, maturing on March 15, 2014 and include interest at 12% per annum. The outstanding balances at June 30, 2013 are comprised of:

Balance					Balance							
	<u>Ju</u>	ly 1, 2012	/	Additions		Deletions	Jun	e 30, 2013	_	Current	Lon	g-Term
Laguna Hills Water												
Company	\$	1,210,405	\$	-	\$	(782,863)	\$	427,542	\$	427,542	\$	-
Laguna Hills												
Sanitation, Inc.		550,183				(355,847)		194,336	_	194,336		
Total	\$	1,760,588	\$	-	\$	(1.138,710)	<u>\$</u>	621.878	\$	621,878	\$	_

See independent auditors' report.

# NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013

### 7. LONG-TERM LIABILITIES (CONTINUED):

### b. Installment Payment Agreements (Continued):

The annual debt service requirements for the Installment Payment Agreement of the Laguna Hills Water Company outstanding at June 30, 2013, are as follows:

Year Ending  June 30,	F	Principal	I	nterest	Total		
2014	<u>\$</u>	427,542	\$	19,334	<u>\$</u>	446,876	

The annual debt service requirements for the Installment Payment Agreement of the Laguna Hills Sanitation, Inc. outstanding at June 30, 2013, are as follows:

Year Ending June 30,	<u> </u>	rincipal	Ir	nterest	p.,,p.,	Total
2014	<u>\$</u>	194,336	\$	8,788	<u>\$</u>	203,124

The Laguna Hills Water Company and developers entered into agreements entitled Main Extension Contracts (the Contracts) which stated that developers would advance funds to the Laguna Hills Water Company for construction of certain water main extensions or construct the water main extensions themselves and deed them to the Laguna Hills Water Company. In exchange, the Laguna Hills Water Company would pay back the amount of money advanced or incurred by the developers.

### c. Main Extension Contracts:

The Contracts are payable to the developers without interest. The payments are based on a percentage of revenue received from units served by the water main. The Contracts must be repaid in not more than 25 years, but may be paid off in advance at the option of the District.

The outstanding balance at June 30, 2013 was \$6,180.

# NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013

### 7. LONG-TERM LIABILITIES (CONTINUED):

### d. State Revolving Fund Loans:

The outstanding balances for the State Revolving Fund Loans at June 30, 2013 are comprised of:

Balance					Balance							
	_Ju	ly 1, 2012		Additions	_	Deletions	Ju	ne 30, 2013		Current	<u> </u>	ong-Term
State Revolving Fund	i											
Loans for the:												
Wastewater												
Treatment												
Plant upgrade	\$	3,221,294	\$	-	\$	(513,187)	\$	2,708,107	\$	522,439	\$	2,185,668
Northline Lift												
Station												
Improvement												
Project		3,699,321	_	260,001	_	(161,555)		3,797,767		155,606		3,642,161
Total	\$	6,920,615	<u>\$</u>	260,001	\$	(674,742)	\$	6,505,874	<u>\$</u>	678,045	\$	5.827.829

### Wastewater Treatment Plant Upgrade

In December 1995, the District obtained approval for a State Revolving Fund Loan (the Loan) through the State Water Resources Control Board (SWRCB), an agency of the State of California. The Loan was obtained to fund a substantial portion of the El Toro Water District Wastewater Treatment Plant upgrade project. The District received loan disbursements through the completion of the project for an aggregate loan amount of approximately \$9,570,000, bearing an imputed interest rate of less than 1.5%. The District established a reserve fund by setting aside \$571,267.

The annual debt service requirements for the Loan outstanding at June 30, 2013, are as follows:

Year Ending							
June 30,	Principal		I	nterest	Total		
2014	\$	522,439	\$	48,828	\$	571,267	
2015		531,859		39,408		571,267	
2016		541,448		29,819		571,267	
2017		551,211		20,056		571,267	
2018		<u>561,150</u>		10,117		571,267	
	ф	0 = 00 10=	Φ.	1.40.000	d.	2.056.225	
Totals	\$	2,708,107	<u>s</u>	148,228	<u>s</u>	2,856,335	

# NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013

# 7. LONG-TERM LIABILITIES (CONTINUED):

d. State Revolving Fund Loans (Continued):

## Northline Lift Station Improvement Project

In October 2010, the District obtained approval for a State Revolving Fund Loan (the Loan) through the State Water Resources Control Board (SWRCB), an agency of the State of California. The Loan was obtained to fund a substantial portion of the El Toro Water District Northline Lift Station Improvement project. The District may borrow up to \$3,918,590 or the eligible cost of the project whichever is less bearing an interest rate of 2.7%. As of June 30, 2013, the District has received loan disbursements of \$3,918,590.

The estimated annual debt service requirements for the Loan outstanding at June 30, 2013, are as follows:

Year Ending			
June 30,	Principal	Interest	Total
2014	\$ 155,606	\$ 102,540	\$ 258,146
2015	159,808	98,338	258,146
2016	164,123	94,023	258,146
2017	168,554	89,592	258,146
2018	173,105	85,041	258,146
2019 - 2023	938,205	352,525	1,290,730
2024 - 2028	1,071,890	218,840	1,290,730
2029 - 2032	966,476	66,108	1,032,584
Totals	<u>\$ 3,797,767</u>	\$ 1,107,007	<u>\$ 4,904,774</u>

e. Compensated absences are comprised of unpaid vacation leave and sick leave which are accrued as earned (see Note 2n).

# NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013

#### 8. PENSION PLAN:

The District contributes to the El Toro Water District Retirement Savings Plan and Trust (the Plan), which is a qualified defined contribution pension plan under Section 401(a) and 401(k) of the Internal Revenue Code. The Plan is administered by the District.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the participant's account balance at the time payments are calculated.

As established by the Plan, enrollment in the elective deferral portion of the Plan is completely voluntary. An employee can authorize elective deferral contributions from 0% of his or her compensation to the maximum amount allowed by law. Employees are always 100% vested in the amount of their elective deferral contributions.

The District allows qualified matching contributions. Effective December 1, 2005, the District executed an amendment to the Plan authorizing the District (as Employer) to match an amount equal to 50% of each participant's contributions to either 401(k) or 457 Plans, but no more than 12%. The District's contributions are limited to deposits toward the 401(k) plan.

In addition, the District contributes an amount equal to 9% of compensation for a plan year, for all participants regardless of whether they are employed on the last day of the plan year, and regardless of whether they made any salary deferrals to the plan.

For the year ended June 30, 2013, the District and employees made the following contributions:

		Percent of
	Actual	Covered
	<u>Contributions</u>	Payroll
District	\$ 611,841	13%
Employees	264,922	6%

For the year ended June 30, 2013, the total payroll and the payroll for the employees covered by the Plan were \$4,560,487.

# NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013

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

#### a. Plan Description:

The District provides certain post-employment health care benefits for employees. For employees hired before June 1, 2008, it is the District's policy to extend medical coverage into retirement beginning at age 55 if the employee has 10 consecutive years of service. Medical insurance premiums will continue to be paid by the District on behalf of the retiree and covered dependents (or surviving spouse) until the retiree attains age 65. After age 65, retiree and spouse or surviving spouse may elect to continue coverage for their further lifetime at the District's expense under a Medicare-coordinated version of any of the Association of California Water Agencies JPIA (JPIA) Blue Cross, PPO or HMO or Kaiser HMO options.

For both pre- and post-Medicare coverage, the retiree is required to pay a monthly premium of PPO or HMO that varies by tier and plan. In 2012, the retiree paid 10% as of January 1, for the PPO and 8.5% as of January 1, followed by 10% as of July 1 for the HMO. The exception to the formula is that of the single retiree premium in the Kaiser HMO. This methodology is at the on-going discretion of the Board of Directors. For employees hired after June 1, 2008, coverage is limited to the employee only beginning at age 60 if the employee has 20 consecutive years of service. 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, and/or the District's Board of Directors. Currently, contributions are not required from plan members. The District is currently funding this OPEB obligation on a pay-as-you-go basis, which the Board believes is the most appropriate method. For the year ended June 30, 2013, the District paid \$145,678 in health care costs for its retirees and their covered dependents.

### 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), an amount actuarially determined in accordance with parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded liabilities of the plan over a period not to exceed thirty years.

# NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013

## 9. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONTINUED):

### c. Annual OPEB Cost and Net OPEB Obligation (Continued):

The following table shows the component of the District's annual OPEB costs for the year, the amount actually contributed to the plan, and changes in the District's net OPEB asset.

Annual required contribution (ARC)	\$ 723,262
Interest on Net OPEB obligation	103,041
Adjustment to ARC	 (134,059)
Annual OPEB cost	692,244
Contribution made, net of adjustment	 (145,678)
Increase in Net OPEB obligation	546,566
Net OPEB obligation at June 30, 2012	 2,060,817
Net OPEB obligation at June 30, 2013	\$ 2,607,383

#### d. Three-Year Trend Information:

The District's annual OPEB cost, the actual contribution, the percentage of annual OPEB costs contributed to the plan, and the net OPEB obligation for the three years ended June 30, 2013 were as follows:

			Actual		Percentag	e		
Fiscal	Annual		Contribution		of Annual			Net
Year	OPEB		(Net of		<b>OPEB</b> Costs			OPEB
Ended	 Cost		Adjustments)		<u>Contributed</u>			<u>Obligation</u>
6/30/11	\$ 709,936	\$	114,265		16.10	%	\$	1,481,027
6/30/12	700,970		121,180		17.29	%		2,060,817
6/30/13	692,244		145,678		21.04	%		2,607,383

### e. Funded Status and Funding Progress:

As of July 1, 2010, the latest actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability (AAL) for benefits was \$6,244,208, and the actuarial value of assets (AVA) was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$6,244,208. The covered payroll (annual payroll of active employees covered by the plan) was \$5,366,236 and the ratio of the UAAL to the covered payroll was 116.36%.

# NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013

### 9. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONTINUED):

# e. 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 future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the District 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 basic 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.

#### f. Actuarial Methods and Assumptions:

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation. 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, 2010 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a discount rate of 5.0% per annum, a rate of return on assets of 5.0% per annum and a healthcare cost trend rate of 8.0% initially, reduced by annual decrements of 1.0% to an ultimate rate of 5.0% after four years

#### 10. RISK MANAGEMENT:

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

The Authority is a risk-pooling self-insurance authority, created under provisions of California Government Code Sections 6500 et. seq. The purpose of the Authority is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage.

# NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013

### 10. RISK MANAGEMENT (CONTINUED):

At June 30, 2013, as a member of the Authority, the District participated in the insurance programs as follows:

General and Auto Liability - the District is insured up to \$60,000,000 with no deductible; subject to policy aggregate limits; the Authority is self-insured up to \$2,000,000 and excess insurance coverage has been purchased to cover losses ranging from \$2,000,000 to \$60,000,000.

<u>Public Officials' Liability</u> - the District has coverage for errors and omissions up to \$60,000,000 subject to policy aggregate limits; the Authority is self-insured up to \$2,000,000 and excess insurance coverage has been purchased to cover losses ranging from \$2,000,000 to \$60,000,000.

<u>Property Loss</u> - the District is insured up to \$100,000,000 with a \$1,000 deductible; the Authority is self-insured up to \$50,000 and insurance coverage has been purchased to cover losses ranging from \$50,000 to \$100,000,000 limited to the insurable value.

<u>Public Employee Fidelity Bond</u> - the District is insured up to \$1,500,000 with a \$5,000 deductible; the Authority is self-insured up to \$100,000 and excess insurance coverage has been purchased to cover losses ranging from \$100,000 to \$1,500,000.

Workers' Compensation - the District is insured up to \$4,000,000; the Authority is self-insured up to \$2,000,000 and excess insurance coverage has been purchased to cover losses in excess of \$2,000,000.

<u>Underground Storage Tank Pollution Liability</u> - the District is insured up to \$1,000,000 with a \$10,000 deductible; the Authority is self-insured up to \$500,000 and excess insurance coverage has been purchased to cover losses ranging from \$500,000 to \$1,000,000.

<u>Dam Failure Liability</u> - the District is insured up to \$20,000,000 with \$50,000 retention and excess insurance coverage has been purchased to cover losses ranging from \$50,000 to \$20,000,000.

<u>Fiduciary Liability</u> - the District is insured up to \$3,000,000.

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

# NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013

#### 11. NET POSITION:

The District's net position is classified into the following categories:

- Net investment in capital assets
- Restricted net position
- Unrestricted net position

As of June 30, 2013 the net investment in capital assets consisted of the following:

Capital assets, net Related long-term debt	\$ —	60,520,579 (7,133,932)
Net investment in capital assets	<u>\$</u>	53,386,647
As of June 30, 2013 the restricted net position consisted of the following:		·
		Debt Service
Restricted cash and equivalents	\$	3,427,601
Current liabilities payable from restricted assets: Interest payable		(71,020)
Restricted net position	<u>\$</u>	3,356,581

#### 12. CONTINGENCIES AND COMMITMENTS:

The District had \$20,444,285 in outstanding contract commitments for completion of ongoing capital improvements projects at June 30, 2013.

### 13. SUBSEQUENT EVENT:

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through November 6, 2013, the date the financial statements were available to be issued.

# REQUIRED SUPPLEMENTARY INFORMATION

# SCHEDULE OF FUNDING PROGRESS OTHER POST-EMPLOYMENT BENEFIT PLAN

# REQUIRED SUPPLEMENTARY INFORMATION

For the year ended June 30, 2013

# SCHEDULE OF FUNDING PROGRESS OTHER POST-EMPLOYMENT BENEFIT PLAN

	Actuarial					
	Accrued	Actuarial Value	Unfunded		Annual	UAAL as a
Actuarial	Liability	of Assets	AAL	Funded	Covered	Percentage of
Valuation	(AAL)	(AVA)	(UAAL)	Ratio	Payroll	Payroll
Date	(a)	(b)	(a) - (b)	(b)/(a)	(c)	[(a)-(b)]/(c)
7/1/2007	\$ 4,398,864	\$ -	\$ 4,398,864	0.00%	\$ 4,200,911	104.71%
7/1/2010	\$ 6,244,208	\$ -	\$ 6,244,208	0.00%	\$ 5,366,236	116.36%