

El Toro Water District

Lake Forest, California

Annual Financial Report

For the Fiscal Years Ended June 30, 2015 and 2014





**El Toro Water District
Board of Directors as of June 30, 2015**

<u>Name</u>	<u>Title</u>	<u>Elected/ Appointed</u>	<u>Current Term</u>
M. Scott Goldman	President	Elected	2012 - 2016
William H. Kahn	Vice President	Elected	2014 - 2018
Jose Vergara	Treasurer	Elected	2012 -2016
Frederick J. Adjarian	Director	Elected	2014 - 2018
Mark Monin	Director	Appointed	2015 - 2016

**El Toro Water District
Robert R. Hill, General Manager
24251 Los Alisos Blvd.
Lake Forest, California 92630
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**El Toro Water District
Annual Financial Report
For the Fiscal Years Ended June 30, 2015 and 2014**

Table of Contents

	<u>Page</u>
Table of Contents	i
Independent Auditors' Report on Financial Statements	1
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	3
Management's Discussion and Analysis – Required Supplementary Information (Unaudited)	5
Basic Financial Statements:	
Balance Sheets	10
Statements of Revenues, Expenses and Changes in Net Position	11
Statements of Cash Flows	12
Notes to the Basic Financial Statements	14
Required Supplementary Information (Unaudited):	
Schedule of Funding Status	35

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of the El Toro Water District
Lake Forest, California

Report on the Financial Statements

We have audited the accompanying basic financial statements of the El Toro Water District (District), which comprise of the balance sheet as of June 30, 2015, and the related statements of revenues, expenses and change in net position, cash flows, and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

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.

Auditor's 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 standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 auditor considers internal control relevant to the entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of June 30, 2015, and the respective changes in financial position, and, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 8 and the required supplementary information on page 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

2014 Financial Information

El Toro Water District's basic financial statements for the year ended June 30, 2014, were audited by other auditors whose report thereon dated October 10, 2014, expressed an unmodified opinion on the respective financial statements of the District.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2015, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance. This report can be found on pages 3 and 4.

The PwC Group, LLP

Santa Ana, California
October 19, 2015



**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***

Independent Auditors' Report

To the Board of Directors
of the El Toro Water District
Lake Forest, 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 balance sheet as of June 30, 2015, and the related statements of revenues, expenses and change in net position, cash flows, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated October 19, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of District's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

To the Board of Directors
of the El Toro Water District
Lake Forest, California
Page 2

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "The Per Group, LLP". The signature is written in a cursive, flowing style.

Santa Ana, California
October 19, 2015

El Toro Water District

Management's Discussion and Analysis (Unaudited)

For the Fiscal Years Ended June 30, 2015 and 2014

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the El Toro Water District (District) provides an introduction to the financial statements of the District for the fiscal years ended June 30, 2015 and 2014. We encourage readers to consider the information presented here in conjunction with the basic financial statements and related notes, which follow this section.

Financial Highlights

- The District's net position decreased 0.17%, or \$(120,706) to \$69,476,746, in fiscal year 2015, and increased 1.8%, or \$1,215,067 to \$69,597,452, in fiscal year 2014, as a result of operations for both years.
- In 2015, the District's operating revenues decreased 0.28%, or \$(64,491), primarily due to the net amount of a \$(688,411) decrease in water consumption sales and \$647,538 increase in sewer services. In 2014, the District's operating revenues increased 2.6%, or \$596,115, primarily due to \$233,131 increase in water consumption sales and \$355,995 increase in sewer services.
- In 2015, the District's operating expenses decreased 0.30%, or \$(64,396), primarily due to the net amount of a decrease in source of supply of \$(813,608), \$127,792 increase in water treatment costs, \$181,490 increase of transmission and distributions and \$386,834 increase in general and administrative costs. In 2014, the District's operating expenses increased 8.6%, or \$1,733,911, primarily due to increases in source of supply of \$1,030,504 and transmission and distribution costs of \$332,181.

Required Financial Statements

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

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

Financial Analysis of the District

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

These two statements report the District's *net position* and changes in them. One can think of the District's net position – the difference between assets and liabilities – as one way to measure the District's 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, one will need to consider other non-financial factors such as changes in economic conditions, population growth, zoning and new or changed government legislation, such as changes in Federal and State water quality standards.

El Toro Water District
Management's Discussion and Analysis (Continued)(Unaudited)
For the Fiscal Years Ended June 30, 2015 and 2014

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 15 through 35.

Balance Sheets

	Condensed Balance Sheets				
	<u>2015</u>	<u>2014</u>	<u>Change</u>	<u>2013</u>	<u>Change</u>
Assets:					
Current assets	\$ 25,847,131	\$ 22,973,175	\$ 2,873,956	\$ 22,837,894	\$ 135,281
Non-current assets	-	-	-	204,546	(204,546)
Capital assets, net	<u>90,300,408</u>	<u>81,171,562</u>	<u>9,128,846</u>	<u>60,520,579</u>	<u>20,650,983</u>
Total assets	<u><u>\$ 116,147,539</u></u>	<u><u>\$ 104,144,737</u></u>	<u><u>\$ 12,002,802</u></u>	<u><u>\$ 83,563,019</u></u>	<u><u>\$ 20,581,718</u></u>
Liabilities:					
Current liabilities	\$ 5,049,553	\$ 6,879,027	\$ (1,829,474)	\$ 5,829,684	\$ 1,049,343
Non-current liabilities	<u>41,621,241</u>	<u>27,668,259</u>	<u>13,952,982</u>	<u>9,350,950</u>	<u>18,317,309</u>
Total liabilities	<u>46,670,793</u>	<u>34,547,285</u>	<u>12,123,508</u>	<u>15,180,634</u>	<u>19,366,651</u>
Net Position:					
Net investment in capital assets	52,204,625	57,218,606	(5,013,981)	53,386,647	3,831,959
Restricted for debt service	2,285,068	2,856,335	(571,267)	3,427,601	(571,266)
Unrestricted	<u>14,987,053</u>	<u>9,522,511</u>	<u>5,464,542</u>	<u>11,568,137</u>	<u>(2,045,626)</u>
Total net position	<u>69,476,746</u>	<u>69,597,452</u>	<u>(120,706)</u>	<u>68,382,385</u>	<u>1,215,067</u>
Total liabilities and net position	<u><u>\$ 116,147,539</u></u>	<u><u>\$ 104,144,737</u></u>	<u><u>\$ 12,002,802</u></u>	<u><u>\$ 83,563,019</u></u>	<u><u>\$ 20,581,718</u></u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets of the District exceeded liabilities by \$69,476,746 and \$69,597,452 as of June 30, 2015 and 2014, respectively.

By far the largest portion of the District's net position (75% as of June 30, 2015 and 82% as of June 30, 2014) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are not available for future spending.

At the end of fiscal years 2015 and 2014, the District showed a balance in its restricted net position of \$2,285,068 and \$2,856,335, respectively, which is restricted for debt service repayments.

At the end of fiscal years 2015 and 2014, the District showed a positive balance in its unrestricted net position of \$14,987,053 and \$9,522,511, respectively, which may be utilized in future years. (See note 8 for further details)

El Toro Water District
Management's Discussion and Analysis (Continued)(Unaudited)
For the Fiscal Years Ended June 30, 2015 and 2014

Statements of Revenues, Expenses and Changes in Net Position

Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>2015</u>	<u>2014</u>	<u>Change</u>	<u>2013</u>	<u>Change</u>
Revenue:					
Operating revenue	\$ 23,124,200	\$ 23,188,691	\$ (64,491)	\$ 22,592,576	\$ 596,115
Non-operating revenue	1,357,378	1,048,295	309,083	1,342,285	(293,990)
Total revenue	<u>24,481,578</u>	<u>24,236,986</u>	<u>244,592</u>	<u>23,934,861</u>	<u>302,125</u>
Expense:					
Operating expense	21,638,728	21,703,124	(64,396)	19,969,213	1,733,911
Depreciation expense	2,831,181	2,781,397	49,784	2,816,753	(35,356)
Non-operating expense	132,375	185,655	(53,280)	1,899,303	(1,713,648)
Total expense	<u>24,602,284</u>	<u>24,670,176</u>	<u>(67,892)</u>	<u>24,685,269</u>	<u>(15,093)</u>
Net loss before capital contributions	(120,706)	(433,190)	312,484	(750,408)	317,218
Capital contributions:					
Change in net position	-	1,648,257	(1,648,257)	3,092,146	(1,443,889)
Net position, beginning of year	(120,706)	1,215,067	(1,335,773)	2,341,738	(1,126,671)
Net position, beginning of year	<u>69,597,452</u>	<u>68,382,385</u>	<u>1,215,067</u>	<u>66,040,647</u>	<u>2,341,738</u>
Net position, end of year	<u>\$ 69,476,746</u>	<u>\$ 69,597,452</u>	<u>\$ (120,706)</u>	<u>\$ 68,382,385</u>	<u>\$ 1,215,067</u>

The statements of revenues, expenses and changes of net position reflect how the District's net position changed during the fiscal year. In the case of the District, the District's change in net position decreased by \$(120,706) and increased by \$1,215,067 for the fiscal years ended June 30, 2015 and 2014, respectively.

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

In 2015, the District's operating revenues decreased 0.28%, or \$(64,491), primarily due to the net amount of a \$(688,411) decrease in water consumption sales and \$647,538 increase in sewer services. In 2014, the District's operating revenues increased 2.6%, or \$596,115, primarily due to a \$233,131 increase in water consumption sales and \$355,995 increase in sewer services.

In 2015, the District's operating expenses decreased 0.30%, or \$(64,396), primarily due to the net amount of a decrease in source of supply of \$(813,608), \$127,792 increase in water treatment costs, \$181,490 increase of transmission and distributions and \$386,834 increase in general and administrative costs. In 2014, the District's operating expenses increased 8.6%, or \$1,733,911, primarily due to increases in source of supply of \$1,030,504 and transmission and distribution costs of \$332,181.

Capital Asset Administration

Capital asset amounts for the fiscal years ending June 30 were as follows:

	<u>2015</u>	<u>2014</u>
Capital assets:		
Non-depreciable assets	\$ 50,198,865	\$ 39,465,009
Depreciable assets	99,587,183	98,518,166
Accumulated depreciation	<u>(59,485,640)</u>	<u>(56,811,613)</u>
Total capital assets, net	<u>\$ 90,300,408</u>	<u>\$ 81,171,562</u>

At the end of fiscal years 2015 and 2014, the District's investment in capital assets amounted to \$90,300,408 and \$81,171,562 (net of accumulated depreciation), respectively. This investment in capital assets includes land, transmission and distribution systems, buildings, equipment, vehicles and construction-in-process, etc. (See note 3 for further information)

El Toro Water District
Management's Discussion and Analysis (Continued)(Unaudited)
For the Fiscal Years Ended June 30, 2015 and 2014

Debt Administration

Long-term debt amounts for the fiscal years ending June 30, were as follows:

	<u>2015</u>	<u>2014</u>
Long-term debt:		
Loans payable	\$ 38,095,783	\$ 23,952,956
Total long-term debt	<u>\$ 38,095,783</u>	<u>\$ 23,952,956</u>

Conditions Affecting Current Financial Position

Management is unaware of any conditions which could have a significant impact on the District's current financial position, net position or operating results based on past, present and future events. (See note 5 for further information)

Requests for Information

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact El Toro Water District at 24251 Los Alisos Boulevard, Lake Forest, California.

BASIC FINANCIAL STATEMENTS

El Toro Water District
Balance Sheets
June 30, 2015 and 2014

ASSETS	2015	2014
CURRENT ASSETS:		
Cash and cash equivalents (note 2)	\$ 9,788,234	\$ 9,543,932
Investments (note 2)	8,842,510	7,011,860
Restricted – cash and cash equivalents (note 2)	2,285,068	2,856,335
Accrued interest receivable	27,244	26,073
Accounts receivable – water sales and sewer services	2,305,471	2,144,469
Property taxes receivable	7,797	8,955
Accounts receivable – grants	1,738,489	655,915
Accounts receivable – other	56,597	29,561
Materials and supplies inventory	668,998	597,528
Prepaid expenses and other deposits	126,723	98,547
Total current assets	25,847,131	22,973,175
NONCURRENT ASSETS:		
Capital assets – not being depreciated (note 3)	50,198,865	39,465,009
Capital assets, net – being depreciated (note 3)	40,101,543	41,706,553
Total noncurrent assets	90,300,408	81,171,562
Total assets	\$ 116,147,539	\$ 104,144,737
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 2,256,435	\$ 5,498,974
Accrued wages and related payables	143,569	117,711
Customer deposits and unearned revenue	53,250	55,416
Accrued interest payable	544,408	169,574
Long-term liabilities – due within one year:		
Compensated absences (note 4)	347,800	339,505
Loans payable (note 5)	1,704,091	697,847
Total current liabilities	5,049,553	6,879,027
NONCURRENT LIABILITIES		
Compensated absences (note 4)	1,043,399	1,018,514
Other post-employment benefits payable (note 7)	4,186,150	3,394,636
Loans payable (note 5)	36,391,692	23,255,109
Total noncurrent liabilities	41,621,241	27,668,259
Total liabilities	46,670,793	34,547,285
NET POSITION: (note 8)		
Net investment in capital assets	52,204,625	57,218,606
Restricted for debt service	2,285,068	2,856,335
Unrestricted	14,987,053	9,522,511
Total net position	69,476,746	69,597,452
Total liabilities and net position	\$ 116,147,539	\$ 104,144,737

El Toro Water District
Statements of Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating revenues:		
Water consumption sales	\$ 9,998,985	\$ 10,687,396
Water service charges	4,183,699	3,979,752
Sewer service charges	8,725,408	8,077,870
Standby charges	4,818	10,623
Reimbursement from others	116,957	124,353
Other charges for services	94,333	308,697
Total operating revenues	<u>23,124,200</u>	<u>23,188,691</u>
Operating expenses:		
Source of supply	8,771,110	9,584,718
Pumping	1,295,650	1,293,752
Water treatment	3,126,545	2,953,328
Transmission and distribution	4,673,922	4,492,432
Customer service	516,361	465,163
General and administrative	3,255,140	2,913,731
Total operating expenses	<u>21,638,728</u>	<u>21,703,124</u>
Operating income before depreciation	1,485,472	1,485,567
Depreciation expense	(2,831,181)	(2,781,397)
Operating (loss)	<u>(1,345,709)</u>	<u>(1,295,830)</u>
Non-operating revenue (expense):		
Property taxes-ad valorem	815,554	774,568
Rental revenue	246,196	165,282
Investment earnings	76,804	51,881
Interest expense	(132,375)	(185,655)
Other non-operating revenue	218,824	56,564
Total non-operating, net	<u>1,225,003</u>	<u>862,640</u>
Net (loss) before capital contributions	<u>(120,706)</u>	<u>(433,190)</u>
Capital contributions:		
Capital facility fees	-	85,847
Capital grants	-	1,562,410
Total capital contributions	<u>-</u>	<u>1,648,257</u>
Change in net position	(120,706)	1,215,067
Net position, beginning of year	<u>69,597,452</u>	<u>68,382,385</u>
Net position, end of year	<u>\$ 69,476,746</u>	<u>\$ 69,597,452</u>

El Toro Water District
Statements of Cash Flows
For the Fiscal Year Ended June 30, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Cash receipts from customers for water sales and services	\$ 23,401,182	\$ 23,488,213
Cash paid to employees for salaries and wages	(4,127,261)	(4,097,678)
Cash paid to vendors and suppliers for materials and services	(20,005,266)	(15,149,230)
Net cash provided by (used in) operating activities	(731,345)	4,241,305
Cash flows from non-capital financing activities:		
Proceeds from property taxes-ad valorem	816,712	783,835
Net cash provided by non-capital financing activities	816,712	783,835
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(11,772,160)	(23,432,380)
Capital contributions	(1,082,574)	4,054,847
Principal payments on long-term debt	(691,666)	(1,299,923)
Proceeds received from long-term debt	14,834,493	18,118,947
Interest paid	242,459	(87,101)
Net cash provided by (used in) capital and related financing activities	1,530,552	(2,645,610)
Cash flows from investing activities:		
Principal received on note receivable – AMP	-	263,081
Sale (purchase) of investments, net	(2,018,517)	1,014,952
Investment earnings	75,633	59,322
Net cash provided by (used in) investing activities	(1,942,884)	1,337,355
Net increase (decrease) in cash and cash equivalents	(326,965)	3,716,885
Cash and cash equivalents, beginning of year	12,400,267	8,683,382
Cash and cash equivalents, end of year	\$ 12,073,302	\$ 12,400,267
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash and cash equivalents	\$ 9,788,234	\$ 9,543,932
Restricted – cash and cash equivalents	2,285,068	2,856,335
Total cash and cash equivalents	\$ 12,073,302	\$ 12,400,267

El Toro Water District
Statements of Cash Flows (Continued)
For the Fiscal Year Ended June 30, 2014 and 2015

	2015	2014
Reconciliation of operating loss to net cash provided by operating activities:		
Operating (loss)	<u>\$ (1,345,709)</u>	<u>\$ (1,295,830)</u>
Adjustments to reconcile operating (loss) to net cash provided by (used in) operating activities:		
Depreciation expense	2,831,181	2,781,397
Rental revenue	246,196	165,282
Other non-operating revenue	218,824	56,564
Changes in assets and liabilities:		
(Increase)decrease in assets:		
Accounts receivable – water sales and sewer services, net	(161,002)	80,357
Accounts receivable – other	(27,036)	(2,681)
Materials and supplies inventory	(71,470)	2,667
Prepaid expenses and other deposits	(28,176)	4,476
Increase(decrease) in liabilities:		
Accounts payable and accrued expenses	(3,242,539)	1,477,691
Accrued wages and related payables	25,858	22,674
Customer deposits and unearned revenue	(2,166)	24,421
Compensated absences	33,180	137,034
Other post-employment benefits payable	791,514	787,253
Total adjustments	<u>614,364</u>	<u>5,537,135</u>
Net cash provided by (used by) operating activities	<u><u>\$ (731,345)</u></u>	<u><u>\$ 4,241,305</u></u>
Non-cash investing, capital and financing transactions:		
Change in fair-value of adjustments	<u><u>\$ 54,754</u></u>	<u><u>\$ 1,343</u></u>

El Toro Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2015 and 2014

Note 1 – Reporting Entity and Summary of Significant Accounting Policies

Organization and Operations of the Reporting Entity

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

The El Toro Water District Public Facilities Corporation (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 Corporation, an entity legally separate from the District, is governed by substantially all the board members of the District. The Corporation is inactive at this time.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Statements No. 61, *The Financial Reporting Entity*. Th0065 District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization's governing body and: 1) It is able to impose its will on that organization, or 2) There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

Basis of Accounting and Measurement Focus

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 of providing water to its service area on a continuing basis be financed or recovered primarily through user charges (water sales), sewer service fees, capital grants and similar funding. Revenues and expenses are recognized on the full accrual basis of accounting. 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 flows take place. Operating revenues and expenses, such as water sales and water purchases, 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. Management, administration, and depreciation expenses are also considered operating expenses. Other revenues and expenses, not included in the above categories, are reported as non-operating revenues and expenses.

Financial Reporting

The District's basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to enterprise funds. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District solely operates as a special-purpose government which means it is only engaged in business-type activities; accordingly, activities are reported in the District's enterprise fund.

El Toro Water District
Notes to the Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2015 and 2014

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)

Assets, Liabilities and Net Position

Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities they also include disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in net position during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Substantially all of the District's cash is invested in interest bearing accounts. The District considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

Investments and Investment Policy

The District has adopted an investment policy directing the Chief Financial Officer to invest the District's funds in financial institutions.

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

Accounts Receivable

The District extends credit to customers in the normal course of operations. Management deems all accounts receivable as collectible at year-end. Accordingly, an allowance for doubtful accounts has not been provided in the accompanying basic financial statements.

Property Taxes-Ad Valorem

The Orange County Assessor's Office assesses all real and personal property within the County each year. The Orange County Tax Collector's Offices bills and collects the District's share of property taxes. The Orange County Auditor-Controller's Office remits current and delinquent property tax collections to the District throughout the year. Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations.

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

Lien date	January 1
Levy date	July 1
Due dates	November 10 and February 10
Collection dates	December 11 and April 11

Prepaid Expenses

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

El Toro Water District
Notes to the Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2015 and 2014

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)

Assets, Liabilities and Net Position (Continued)

Capital Assets

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

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

	<u>Estimated Useful Life</u>
Building	25 to 40 years
Vehicles	5 to 25 years
Office furniture and equipment	5 to 10 years
Computer software	5 to 10 years
Land improvements	20 to 50 years
 Water Facilities:	
Reservoir	100 years
Transmission and distribution	20 to 60 years
Filtration plant	30 to 40 years
Other plant and equipment	5 to 15 years
 Sanitation Facilities:	
Collection and transmission	15 to 50 years
Treatment and disposal plant	15 to 30 years
Other plant and equipment	5 to 15 years

Construction-in-Process

The cost of acquisition and construction of major plant and equipment is recorded as construction in process (CIP). As facilities are constructed by the District and become operative, they are transferred from CIP to the plant and equipment accounts, or are expensed if determined that the cost does not meet the requirements of the capitalization policy.

Compensated Absences

The District’s policy is to permit employees hired prior to July 1, 1997 to accumulate earned vacation up to a total of 160 hours and employees hired after July 1, 1997 to accumulate earned vacation up to a total of 240 hours, with amounts exceeding the limit being paid out as part of the employee’s current regular compensation.

The District’s sick leave policy is to permit employees to accumulate sick leave up to a total of 960 hours. At the end of each calendar year, any amounts exceeding the limit will be transferred to vacation time for employees hired prior to July 1, 1997 and paid out 50% to those hired after July 1, 1997 at the employee’s current regular compensation rate. A factor of 5% times the number of complete years of employment will be applied to the hours accumulated over 960 hours to determine the number of hours to be transferred or paid out.

El Toro Water District
Notes to the Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2015 and 2014

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)

Assets, Liabilities and Net Position (Continued)

Comparative Data

Selected information regarding the prior year has been included in the accompanying financial statements. The information included in the accompanying financial statements for the prior year has been presented 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.

Net Position

The financial statements utilize a net position presentation. Net position is categorized as follows:

- **Net investment in capital assets** – This component of net position consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt against the acquisition, construction or improvement of those assets.
- **Restricted** – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted** – This component of net position consists of the net amount of assets that are not included in the determination of *restricted* or *investment in capital assets, net of related debt*.

Water Sales and Sewer Services

Water sales and sewer services are billed on a monthly cyclical basis and recognize the respective revenues when they are earned.

Capital Contributions

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

Capital and Operating Grants

When a grant agreement is approved and eligible expenditures are incurred, the amount is recorded as a capital or operating grant receivable on the balance sheet and as capital grant contribution or operating grant revenue, as appropriate, on the statement of revenues, expenses and changes in net position.

Budgetary Policies

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

El Toro Water District
Notes to the Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2015 and 2014

Note 2 – Cash and Investments

Cash and investments as of June 30, are classified in the accompanying financial statements as follows:

	2015	2014
Cash and cash equivalents	\$ 9,788,234	\$ 9,543,932
Investments	8,842,510	7,011,860
Restricted – cash and cash equivalents	2,285,068	2,856,335
Total cash and investments	\$ 20,915,812	\$ 19,412,127

Cash and investments as of June 30, consist of the following:

	2015	2014
Cash on hand	\$ 700	\$ 700
Deposits with financial institutions	564,382	882,365
Investments	20,350,730	18,529,062
Total cash and investments	\$ 20,915,812	\$ 19,412,127

Investments Authorized by the California Government Code and the District’s Investment Policy

The table below identifies the investment types that are authorized by the District in accordance with the California Government Code (or the District’s investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District’s investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment in One Issuer
U.S. Treasury obligations	5 years	None	None
Federal agency and bank obligations	5 years	None	None
Certificates-of-deposit (negotiable or placed)	1 year	30%	None
Commercial paper (prime)	180 days	10%	10%
Bankers Acceptance	180 days	15%	None
Money market mutual 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

Local Agency Investment Fund

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code 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.

The District’s investments with LAIF at June 30, 2015, included a portion of the pool funds invested in Structured Notes and Asset-Backed Securities:

Structured Notes: debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.

El Toro Water District
Notes to the Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2015 and 2014

Note 2 – Cash and Investments (Continued)

Local Agency Investment Fund (Continued)

Asset-Backed Securities: generally mortgage-backed securities that entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (for example, Collateralized Mortgage Obligations) or credit card receivables.

As of June 30, 2015, the District had \$11,308,220 invested in LAIF, which had invested 0.97% of the pool investment funds in structured notes and Medium-term Asset-backed Securities. The LAIF fair value factor of 1.000375979 was used to calculate the fair value of the investments in LAIF.

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 \$6,833,604 of United States Government Sponsored Agency Securities and \$2,008,906 of U.S. Treasury Obligations at June 30, 2015.

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 matures or comes close to maturity evenly over time as necessary to provide requirements for cash flow and liquidity needed for operations. Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity date:

Investments at June 30, 2015, consisted of the following:

<u>Investment Type</u>	<u>Amount</u>	<u>Remaining Maturity (in Months)</u>		
		<u>12 months or less</u>	<u>13 to 24 months</u>	<u>25-60 months</u>
United States Government Sponsored Agency Securities:				
Federal Home Loan Mortgage Corporation	\$ 1,004,551	\$ 1,004,551	\$ -	\$ -
Federal Home Loan Bank	5,829,053	2,002,605	3,826,448	-
U.S. Treasury Obligations	2,008,906	1,001,250	1,007,656	-
California Asset Management Program (CAMP)	200,000	200,000	-	-
Local Agency Investment Fund (LAIF)	11,308,220	11,308,220	-	-
Total	\$ 20,350,730	\$ 15,516,626	\$ 4,834,104	\$ -

El Toro Water District
Notes to the Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2015 and 2014

Note 2 – Cash and Investments (Continued)

Investments at June 30, 2014, consisted of the following:

<u>Investment Type</u>	<u>Amount</u>	<u>Remaining Maturity (in Months)</u>		
		<u>12 months or less</u>	<u>13 to 24 months</u>	<u>25-60 months</u>
United States Government Sponsored				
Agency Securities:				
Federal Home Loan Mortgage Corporation	\$ 1,002,201	\$ 1,002,201	\$ -	\$ -
Federal Home Loan Bank	5,008,487	1,000,691	3,007,193	1,000,603
U.S. Treasury Obligations	1,001,172	-	1,001,172	-
California Asset Management Program (CAMP)	1,829,037	1,829,037	-	-
Local Agency Investment Fund (LAIF)	9,688,165	9,688,165	-	-
Total	<u>\$ 18,529,062</u>	<u>\$ 13,520,094</u>	<u>\$ 4,008,365</u>	<u>\$ 1,000,603</u>

Credit Risk

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. The table 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 for each investment are as follows:

Credit ratings at June 30, 2015, consisted of the following:

<u>Investment Type</u>	<u>Amount</u>	<u>Minimum Legal Rating</u>	<u>Ratings</u>		
			<u>AAA</u>	<u>AA +</u>	<u>Unrated</u>
United States Government Sponsored					
Agency Securities:					
Federal Home Loan Mortgage Corporation	\$ 1,004,551	N/A	\$ -	\$ 1,004,551	\$ -
Federal Home Loan Bank	5,829,053	N/A	-	5,829,053	-
U.S. Treasury Obligations	2,008,906	N/A	-	2,008,906	-
California Asset Management Program (CAMP)	200,000	N/A	-	-	200,000
Local Agency Investment Fund (LAIF)	11,308,220	N/A	-	11,308,220	-
Total	<u>\$ 20,350,730</u>		<u>\$ -</u>	<u>\$ 20,150,730</u>	<u>\$ 200,000</u>

Credit ratings at June 30, 2014, consisted of the following:

<u>Investment Type</u>	<u>Amount</u>	<u>Minimum Legal Rating</u>	<u>Ratings</u>		
			<u>AAA</u>	<u>AA +</u>	<u>Unrated</u>
United States Government Sponsored					
Agency Securities:					
Federal Home Loan Mortgage Corporation	\$ 1,002,201	N/A	\$ -	\$ 1,002,201	\$ -
Federal Home Loan Bank	5,008,487	N/A	-	5,008,487	-
U.S. Treasury Obligations	1,001,172	N/A	-	1,001,172	-
California Asset Management Program (CAMP)	1,829,037	N/A	-	-	1,829,037
Local Agency Investment Fund (LAIF)	9,688,165	N/A	-	9,688,165	-
Total	<u>\$ 18,529,062</u>		<u>\$ -</u>	<u>\$ 16,700,025</u>	<u>\$ 1,829,037</u>

El Toro Water District
Notes to the Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2015 and 2014

Note 2 – Cash and Investments (Continued)

Concentration of Credit Risk

The District's investment policy contains no limitations on the amounts that can be invested in any one issuer as beyond that stipulated by the California Government Code. Investments in any one issuer (other than for external investment pools) that represent 5% or more of total District's investments at June 30, 2015 are as follows:

Issuer	Investment Type	Amount	Percent
Federal Home Loan Bank	United States Government Sponsored Agency Securities	\$ 5,829,053	28.64%

Investments in any one issuer (other than for external investment pools) that represent 5% or more of total District's investments at June 30, 2014 are as follows:

Issuer	Investment Type	Amount	Percent
Federal Home Loan Mortgage Corporation	United States Government Sponsored Agency Securities	\$ 1,002,201	5.41%
Federal Home Loan Bank	United States Government Sponsored Agency Securities	\$ 5,008,487	27.03%

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 California Government Code and the District's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, 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. Of the bank balances, up to \$250,000 held at each institution were federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

El Toro Water District
Notes to the Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2015 and 2014

Note 2 – Cash and Investments (Continued)

Custodial Credit Risk (Continued)

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 Code and the District's investment policy contains legal and policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

The carrying amount of the District's cash deposits was \$651,887 and \$564,243 at June 30, 2015 and 2014, respectively. At June 30, 2015 and 2014, total bank balances of deposits were fully insured by the Federal Deposit Insurance or collateralized as required by California law.

Note 3 – Capital Assets

Major capital assets additions during the year include upgrades and extensions of the District's water and wastewater pumping, water transmission and distribution systems and plant facilities in the following schedules:

Changes in capital assets at June 30, 2015 and 2014, were as follows:

	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Reclassifications</u>	<u>Balance June 30, 2015</u>
Non-depreciable assets:					
Land and land rights	\$ 7,451,586	\$ -	\$ -	\$ -	\$ 7,451,586
Construction-in-process	32,013,423	10,921,723	-	(187,867)	42,747,279
Total non-depreciable assets	<u>39,465,009</u>	<u>10,921,723</u>	<u>-</u>	<u>(187,867)</u>	<u>50,198,865</u>
Depreciable assets:					
Capacity rights	342,382	-	-	-	342,382
Sources of supply	19,798,969	10,155	-	107,202	19,916,326
Pumping	16,837,129	67,476	-	35,335	16,939,940
Treatment	31,997,905	291,676	-	-	32,289,581
Transmission and collection	17,642,666	-	-	9,630	17,652,296
General plant facilities	11,899,115	668,997	(157,154)	35,700	12,446,658
Total depreciable assets	<u>98,518,166</u>	<u>1,038,304</u>	<u>(157,154)</u>	<u>187,867</u>	<u>99,587,183</u>
Accumulated depreciation:					
Capacity rights	(205,466)	(6,846)	-	-	(212,312)
Sources of supply	(9,285,846)	(371,207)	-	-	(9,657,053)
Pumping	(8,173,250)	(644,687)	-	-	(8,817,937)
Treatment	(21,181,097)	(964,797)	-	-	(22,145,894)
Transmission and collection	(8,367,308)	(356,672)	-	-	(8,723,980)
General plant facilities	(9,598,646)	(486,972)	157,154	-	(9,928,464)
Total accumulated depreciation	<u>(56,811,613)</u>	<u>(2,831,181)</u>	<u>157,154</u>	<u>-</u>	<u>(59,485,640)</u>
Total depreciable assets, net	<u>41,706,553</u>	<u>(1,792,877)</u>	<u>-</u>	<u>187,867</u>	<u>40,101,543</u>
Total capital assets, net	<u>\$ 81,171,562</u>	<u>\$ 9,128,846</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 90,300,408</u>

El Toro Water District
Notes to the Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2015 and 2014

Note 3 – Capital Assets (Continued)

	Balance July 1, 2013	Additions	Deletions	Reclassifications	Balance June 30, 2014
Non-depreciable assets:					
Land and land rights	\$ 7,451,586	\$ -	\$ -	\$ -	\$ 7,451,586
Construction-in-process	14,552,547	22,990,259	-	(5,499,383)	32,043,423
Total non-depreciable assets	22,004,133	22,990,259	-	(5,499,383)	39,495,009
Depreciable assets:					
Capacity rights	342,382	-	-	-	342,382
Sources of supply	19,755,564	43,405	-	-	19,798,969
Pumping	11,787,446	45,134	-	5,004,549	16,837,129
Treatment	31,478,046	213,397	-	306,462	31,997,905
Transmission and collection	17,515,094	-	-	127,572	17,642,666
General plant facilities	11,698,130	200,985	-	-	11,899,115
Total depreciable assets	92,576,662	502,921	-	5,438,583	98,518,166
Accumulated depreciation:					
Capacity rights	(198,620)	(6,846)	-	-	(205,466)
Sources of supply	(8,918,232)	(367,614)	-	-	(9,285,846)
Pumping	(7,669,617)	(503,633)	-	-	(8,173,250)
Treatment	(20,112,096)	(1,069,001)	-	-	(21,181,097)
Transmission and collection	(8,004,170)	(363,138)	-	-	(8,367,308)
General plant facilities	(9,127,481)	(471,165)	-	-	(9,598,646)
Total accumulated depreciation	(54,030,216)	(2,781,397)	-	-	(56,811,613)
Total depreciable assets, net	38,546,446	(2,278,476)	-	5,438,583	41,706,553
Total capital assets, net	\$ 60,550,579	\$ 20,711,783	\$ -	\$ (60,800)	\$ 81,201,562

Construction-In-Process

The District is involved in various construction projects throughout the year. In 2015, the District started the recycled water expansion project. Once completed, projects are capitalized and depreciated over the life of the asset. The balance of construction-in-process was \$42,747,279 at June 30, 2015 and \$32,013,422 in 2014.

Construction-in-process consisted of the following projects as of June 30:

	2015	2014
Recycled water distribution system expansion	\$ 23,546,952	\$ 20,040,271
Recycled water tertiary treatment plant	9,783,247	8,042,627
Baker water treatment plant	8,642,296	3,364,247
GIS/CMMS master plan	398,872	264,853
Effluent P.S. electrical improvement project	-	107,202
Various other projects	375,912	194,222
Total construction-in-process	\$ 42,747,279	\$ 32,013,422

El Toro Water District
Notes to the Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2015 and 2014

Note 4 – Compensated Absences

Changes to compensated absences at June 30, 2015 and 2014, were as follows:

<u>Balance</u> <u>July 1, 2014</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance</u> <u>June 30, 2015</u>	<u>Current</u> <u>Portion</u>	<u>Long-term</u> <u>Portion</u>
\$ 1,358,018	\$ 504,923	\$ (471,743)	\$ 1,391,198	\$ 347,800	\$ 1,043,399

<u>Balance</u> <u>July 1, 2013</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance</u> <u>June 30, 2014</u>	<u>Current</u> <u>Portion</u>	<u>Long-term</u> <u>Portion</u>
\$ 1,220,984	\$ 509,317	\$ (372,283)	\$ 1,358,018	\$ 339,505	\$ 1,018,514

Note 5 – Long-Term Debt

	<u>Balance</u> <u>July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2015</u>	<u>Amount</u> <u>Due Within</u> <u>One Year</u>	<u>Amount</u> <u>Due In More Than</u> <u>One Year</u>
Main extension contracts	\$ 6,180	\$ -	\$ -	\$ 6,180	\$ 6,180	\$ -
State revolving fund loans:						
Wastewater treatment plant upgrade	2,185,668	-	(531,859)	1,653,809	541,447	1,112,362
Northline lift station improvement project	3,642,161	-	(159,807)	3,482,354	164,123	3,318,231
Recycled water treatment plant project	16,995,763	9,741,814	-	26,737,577	992,341	25,745,236
Baker water treatment plant	1,123,184	5,092,679	-	6,215,863	-	6,215,863
Total long-term debt	<u>\$ 23,952,956</u>	<u>\$ 14,834,493</u>	<u>\$ (691,666)</u>	<u>\$ 38,095,783</u>	<u>\$ 1,704,091</u>	<u>\$ 36,391,692</u>

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2014</u>	<u>Amount</u> <u>Due Within</u> <u>One Year</u>	<u>Amount</u> <u>Due In More Than</u> <u>One Year</u>
Installment payment agreements:						
Laguna Hills Company	\$ 427,542	\$ -	\$ (427,542)	\$ -	\$ -	\$ -
Laguna Hills Sanitation, Inc.	194,336	-	(194,336)	-	-	-
Main extension contracts	6,180	-	-	6,180	6,180	-
State revolving fund loans:						
Wastewater treatment plant upgrade	2,708,107	-	(522,439)	2,185,668	531,860	1,653,808
Northline lift station improvement project	3,797,767	-	(155,606)	3,642,161	159,807	3,482,354
Recycled water treatment plant project	-	16,995,763	-	16,995,763	-	16,995,763
Baker water treatment plant	-	1,123,184	-	1,123,184	-	1,123,184
Total long-term debt	<u>\$ 7,133,932</u>	<u>\$ 18,118,947</u>	<u>\$ (1,299,923)</u>	<u>\$ 23,952,956</u>	<u>\$ 697,847</u>	<u>\$ 23,255,109</u>

Main Extension Contracts

The Main Extension 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, 2015 and 2014 was \$6,180.

El Toro Water District
Notes to the Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2015 and 2014

Note 5 – Long-Term Debt (Continued)

State Revolving Fund Loan – Wastewater Treatment Plant Upgrade

In December 1995, the District entered into an agreement with the California State Water Resources Control Board (SWRCB) for a Revolving Fund Loan (the Loan) in an amount of \$9,570,000 with an imputed interest rate of less than 1.50% per annum for the Wastewater Treatment Plant upgrade project. The loan is scheduled to mature in 2018. Principal and interest are payable annually on May 1st at an imputed interest rate of less than 1.5%.

Future annual debt service requirements on the loan are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 541,448	\$ 29,819	\$ 571,267
2017	551,211	20,056	571,267
2018	561,150	10,117	571,267
Total	<u>\$ 1,653,809</u>	<u>\$ 59,992</u>	<u>\$ 1,713,801</u>

State Revolving Fund Loan – Northline Lift Station Improvement Project

In October 2010, the District entered into an agreement with the California State Water Resources Control Board (SWRCB) for a State Revolving Fund Loan (Loan) in an amount of \$3,918,590. The loan carries an interest rate of 2.70% per annum for the Northline station improvement project. The loan is scheduled to mature in 2032. Principal and interest are payable annually on January 12th at the interest rate of 2.70%.

Future annual debt service requirements on the loan are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	966,477	66,108	1,032,585
Total	<u>\$ 3,482,354</u>	<u>\$ 906,129</u>	<u>\$ 4,388,483</u>

State Revolving Fund Loan – Recycled Water Treatment Plan Project

In February 2013, the District entered into an agreement with the California State Water Resources Control Board (SWRCB) for a loan in an amount not-to-exceed \$28,327,037 with an interest rate of 1.70% per annum for the Recycled Water Treatment Plan project. As of June 30, 2015 and 2014, eligible costs for reimbursement were \$26,737,577 and \$16,995,763, respectively and accrued as a long-term debt liability on the financial statements.

Future annual debt service requirements on the loan are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 992,341	\$ 335,228	\$ 1,327,569
2017	1,162,637	397,635	1,560,272
2018	1,266,007	433,272	1,699,279
2019 - 2023	6,599,997	1,896,397	8,496,394
2024 - 2028	7,180,398	1,315,996	8,496,394
2029 - 2032	7,811,839	684,555	8,496,394
2033 - 2035	3,313,818	84,740	3,398,558
Total	<u>\$ 28,327,037</u>	<u>\$ 5,147,823</u>	<u>\$ 33,474,860</u>

El Toro Water District
Notes to the Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2015 and 2014

Note 5 – Long-Term Debt (Continued)

Baker Water Treatment Plant Agreement

In December 2013, the District entered into the Baker Water Treatment Plant Agreement, along with five other public entities relating to the Baker treatment plant. In January 2014, the District entered into an installment sale agreement with the Irvine Ranch Water District (IRWD) for the purchase of the District's portion of rights, title and interest to the capacity, not-to-exceed the amount of \$12,500,000. As of June 30, 2015 and 2014, project funds were \$6,215,863 and \$1,123,184, respectively and accrued as a long-term debt liability on the financial statements.

Note 6 – Deferred Compensation Savings Plan

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

As of 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 qualified participants regardless of whether they are employee on the last day of the plan year, and regardless of whether they made any salary deferrals to the plan.

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the District is in compliance with this legislation. Therefore, these assets are not the legal property of the District, and are not subject to claims of the District's general creditors. Market value of the plan assets held in trust at June 30, 2015 and 2014 was \$18,613,010 and \$21,662,648, respectively.

The District has implemented GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. Since the District has little administrative involvement and does not perform the investing function for this plan, the assets and related liabilities are not presented in the accompanying financial statements.

Note 7 – Other Post-Employment Benefits Payable

During the fiscal year ended June 30, 2009, the District implemented GASB Statement No. 45, which changed the accounting and financial reporting used by local government employers for other post-employment benefits (OPEB). Previously, the costs of such benefits were generally recognized as expenses of local government employers on a pay-as-you-go basis. The reporting requirements for these benefit programs as they pertain to the District are set forth below.

Plan Description – Eligibility

The District pays all or a portion of the cost of health insurance for retirees (including prescription drug benefits) under any group plan offered by the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA) Health Program, subject to certain restrictions as determined by the District.

El Toro Water District
Notes to the Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2015 and 2014

Note 7 – Other Post-Employment Benefits Payable (Continued)

Membership in the OPEB plan as of June 30 consisted of the following:

	2015	2014
Active plan members	56	53
Retirees and beneficiaries receiving benefits	17	16
Separated plan members entitled to but not yet receiving benefits	-	-
Total plan membership	73	69

Plan Description – Benefits

The District offers post employment medical benefits to retired employees who satisfy the eligibility rules. Certain spouses and surviving spouses are also eligible to receive benefits. Retirees may enroll in any medical plan available through the District’s Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA) Health Program, a cost-sharing multiple-employer medical coverage plan. The contribution requirements of eligible retired employees and the District are established and may be amended by the Board of Directors.

Funding Policy

The District is required to accrue the *Annual Required Contribution (ARC) of the Employer*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The District will accrue a fixed contribution towards the cost of the post-employment benefit plan for those employees who meet the required service years for retirement from the District. The District funds the plan on a pay-as-you-go basis and maintains reserves (and records a liability) for the difference between pay-as-you-go and the actuarially determined ARC cost.

Annual OPEB Cost and Net OPEB Obligation

For the year ended June 30, 2015, the District’s ARC cost was \$963,954. The District’s net OPEB payable obligation amounted to \$4,186,150 for the year ended June 30, 2015. The District contributed \$138,490 in age adjusted contributions for current retiree OPEB premiums, for the year ended June 30, 2015.

The balance in OPEB payable at June 30 consists of the following:

	2015	2014	2013
Annual OPEB expense:			
Annual required contribution (ARC)	\$ 963,954	\$ 963,954	\$ 723,262
Interest on net OPEB obligation	135,785	104,295	103,041
Adjustment to annual required contribution	(169,735)	(150,785)	(134,059)
Total annual OPEB expense	930,004	917,464	692,244
Change in net OPEB payable obligation:			
Age adjusted contributions made	(138,490)	(130,211)	(145,678)
Total change in net OPEB payable obligation	791,514	787,253	546,566
OPEB payable – beginning of year	3,394,636	2,607,383	2,060,817
OPEB payable – end of year	\$ 4,186,150	\$ 3,394,636	\$ 2,607,383

El Toro Water District
Notes to the Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2015 and 2014

Note 7 – Other Post-Employment Benefits Payable (Continued)

The District’s annual OPEB cost, the percentage of the annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal year 2015 and the three preceding years were as follows:

Three-Year History of Net OPEB Obligation				
Fiscal Year Ended	Annual OPEB Cost	Annual Contribution	% of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2013	\$ 692,244	\$ 145,678	21.04%	\$ 2,607,383
6/30/2014	917,464	130,211	14.19%	3,394,636
6/30/2015	930,004	138,490	14.89%	4,186,150

See Page 36 for the Schedule of Funding Progress.

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing of costs between the employer and plan members to that point. Consistent with the long-term perspective of actuarial calculations, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities for benefits.

The following is a summary of the actuarial assumptions and methods:

Valuation date	July 1, 2013
Actuarial cost method	Projected unit credit
Amortization method	Level dollar
Remaining amortization period	30 Years as of the valuation date
Asset valuation method	30 Year smoothed market
Actuarial assumptions:	
Discount rate	4.0%
Inflation - discount rate	4.0%
Healthcare cost trend rate	8.0%

El Toro Water District
Notes to the Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2015 and 2014

Note 8 – Net Position

Calculation of net position as of June 30, were as follows:	2015	2014
Net investment in capital assets		
Capital assets – not being depreciated	\$ 50,198,865	\$ 39,465,009
Capital assets, net – being depreciated	40,101,543	41,706,553
Current:		
Loans payable	(1,704,091)	(697,847)
Non-current:		
Loans payable	(36,391,692)	(23,255,109)
Total net investment in capital assets	52,204,625	57,218,606
Restricted for debt service:		
Restricted – cash and cash equivalents	2,285,068	2,856,335
Total restricted for debt service	2,285,068	2,856,335
Unrestricted net position:		
Non-spendable net position:		
Materials and supplies inventory	668,998	597,528
Prepaid expenses and other deposits	126,723	98,547
Total non-spendable net position	795,721	696,075
Spendable net position are designated as follows:		
Operating reserve	14,191,332	8,826,436
Total spendable net position	14,191,332	8,826,436
Total unrestricted net position	14,987,053	9,522,511
Total net position	\$ 69,476,746	\$ 69,597,452

Note 9 – Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California water agencies. The purpose of the ACWA/JPIA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2015 and 2014, the District participated in the liability and property programs of the ACWA/JPIA as follows:

- General and auto liability, public officials and employees' errors and omissions: Total risk financing self-insurance limits of \$2,000,000, combined single limit at \$2,000,000 per occurrence. The JPIA purchases additional excess coverage layers: \$60 million per occurrence for general, auto and public officials liability, which increases the limits on the insurance coverage noted above.

El Toro Water District
Notes to the Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2015 and 2014

Note 9 – Risk Management (Continued)

In addition to the above, the District also has the following insurance coverage:

- Employee dishonesty coverage up to \$1,500,000 with a \$5,000 deductible per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverage.
- Property loss coverage is up to \$100,000,000 with a \$1,000 deductible; the ACWA/JPIA is self-insured up to \$50,000 and excess insurance has been purchased.
- Underground Storage Tank Pollution Liability, 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.
- Dam failure liability coverage up to \$20.0 million per occurrence; the ACWA/JPIA is self-insured up to \$50,000 and excess insurance coverage has been purchased.
- Workers' compensation insurance up to California statutory limits for all work related injuries/illnesses covered by California law. The ACWA/JPIA is self-insured up to \$2.0 million and excess insurance coverage has been purchased.

Settled claims have not exceeded any of the coverage amounts and there were no reductions in the District's insurance coverage during the year ending June 30, 2015 and 2014. 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 was no IBNR claims payable as of June 30, 2015 and 2014.

Note 10 – Governmental Accounting Standards Board Future Pronouncements

The Governmental Accounting Standards Board has issued the following new pronouncements that may become applicable to the District in future years. Go to www.gasb.org for the full version of the pronouncement.

Statement No. 72 – *Fair Value Measurement and Application* (Issued 02/15) Applicable for periods beginning after June 15, 2015.

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* (Issued 06/15) Applicable for periods beginning after June 15, 2016.

Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (Issued 06/15) Applicable for periods beginning after June 15, 2015.

Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (Issued 06/15) Applicable for periods beginning after June 15, 2017.

Statement No. 76 – *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (Issued 06/15) Applicable for periods beginning after June 15, 2015.

Statement No. 77 – *Tax Abatement Disclosures* (Issued 08/15) Applicable for periods beginning after December 15, 2015.

El Toro Water District
Notes to the Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2015 and 2014

Note 11 – Commitments and Contingencies

Construction Contracts

The District has a variety of agreements with private parties relating to the installation, improvement or modification of water and wastewater facilities and distribution systems within its service area. The financing of such construction contracts is being provided primarily from the District's replacement reserves and capital contributions.

Litigation

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

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REQUIRED SUPPLEMENTARY INFORMATION

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**El Toro Water District
Required Supplementary Information (Unaudited)
For the Fiscal Year Ended June 30, 2015 and 2014**

Schedule of Funding Progress for Other Post Employment Benefits

<u>Actuarial Valuation Date</u>	<u>Actuarial Asset Value</u>	<u>Actuarial Accrued Liability Entry Age</u>	<u>Unfunded Actuarial Accrued Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Unfunded Actuarial Liability as Percentage of Covered Payroll</u>
7/1/2007	\$ -	4,398,864	4,398,864	0.0%	4,200,911	104.71%
7/1/2010	-	6,244,208	6,244,208	0.0%	5,366,236	116.36%
7/1/2013	-	9,358,165	9,358,165	0.0%	4,058,095	230.60%

Funding progress is presented for the year(s) that an actuarial study has been prepared since the effective date of GASB Statement 45. Actuarial review and analysis of the post-employment benefits liability and funding status is performed every three years or annually, if there are significant changes in the plan. The next scheduled actuarial review and analysis of the post-employment benefits liability and funding status will be performed in fiscal year 2017, based on the year ending June 30, 2016.