

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

**FINANCIAL STATEMENTS**

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

**FOR THE YEAR ENDED JUNE 30, 2017**

**AUDITOR-CONTROLLER  
APR 18 2018**

LAGUNA BEACH COUNTY WATER DISTRICT

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June 30, 2017

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## INDEPENDENT AUDITORS' REPORT

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

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

We have audited the accompanying financial statements of the Laguna Beach County Water District (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinion**

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Laguna Beach County Water District as of June 30, 2017 and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matter**

### *Required Supplementary Information*

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

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2018 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*White Nelson Dick Evans LLP*

Irvine, California  
January 26, 2018

LAGUNA BEACH COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2017

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, 2017. Please read it in conjunction with the financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

Fiscal Year 2017

- The District's net position increased by \$850,572 or 1.36 percent.
- During the year the District's total revenues increased by \$973,216 or 8.00 percent, and expenses increased by \$133,061 or 1.10 percent.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

**REQUIRED FINANCIAL STATEMENTS**

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

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

June 30, 2017

**BUDGETARY HIGHLIGHTS**

TABLE 3  
Fiscal Year 2017 Actual vs. Fiscal Year 2017 Budget

	Fiscal Year 2017		
	Actual	Budget	Variance
<b>Revenues:</b>			
Operating revenues	\$ 9,566,741	\$ 9,625,050	\$ (58,309)
Nonoperating revenues	3,565,163	3,457,420	107,743
<b>Total Revenues</b>	<b>13,131,904</b>	<b>13,082,470</b>	<b>49,434</b>
<b>Expenses:</b>			
<b>Operating Expenses:</b>			
Water purchased	2,860,675	2,944,230	83,555
Source of supply	109,520	223,070	113,550
Pumping	665,736	629,190	(36,546)
Transmission and distribution	2,658,050	2,548,880	(109,170)
Customer service	573,700	555,190	(18,510)
General and administrative	3,102,341	2,592,100	(510,241)
Other operation and maintenance	265,814	236,120	(29,694)
Depreciation	2,045,496	-	(2,045,496)
<b>Total Expenses</b>	<b>12,281,332</b>	<b>9,728,780</b>	<b>(2,552,552)</b>
<b>Change in Net Position</b>	<b>\$ 850,572</b>	<b>\$ 3,353,690</b>	<b>\$ (2,503,118)</b>

As Table 3 shows, the actual change in net position is \$2,503,118 less than the budgeted change in net position. The difference was primarily due to the fact that the District did not budget for depreciation and the District experienced an increase of \$510,241 in General and Administrative expenses due to increases in Customer Services Offices Expenses due to the implementation of the AMI program, an increase in Administration Office Expenses, and an increase in Finance Office Expenses due to the pending retirement of the District Manager of Finance and the transition to the new District Manager of Finance.

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

June 30, 2017

**CONTACTING THE DISTRICT'S FINANCIAL MANAGER**

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

LAGUNA BEACH COUNTY WATER DISTRICT

STATEMENT OF NET POSITION

June 30, 2017

ASSETS:

CURRENT ASSETS:

Cash and cash equivalents	\$ 4,064,120
Investments	11,837,349
Accounts receivable	1,595,533
Interest receivable	67,820
Taxes receivable	46,387
Computer loans to employees	3,376
Notes receivable, current portion	20,789
Inventory	249,392
Prepaid expenses	<u>131,012</u>

TOTAL CURRENT ASSETS	<u>18,015,778</u>
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NONCURRENT ASSETS:

CAPITAL ASSETS:

Capital assets, not being depreciated	8,452,852
Capital assets, being depreciated, net	<u>46,082,530</u>

TOTAL CAPITAL ASSETS, NET	54,535,382
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OTHER NONCURRENT ASSETS:

Notes receivable	<u>178,456</u>
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TOTAL NONCURRENT ASSETS	<u>54,713,838</u>
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TOTAL ASSETS	<u>72,729,616</u>
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DEFERRED OUTFLOWS OF RESOURCES:

Deferred amounts from pension plans	<u>1,343,991</u>
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See accompanying notes to financial statements.

(Continued)



LAGUNA BEACH COUNTY WATER DISTRICT

STATEMENT OF CASH FLOWS

For the year ended June 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	\$ 9,468,699
Payments to suppliers	(5,310,515)
Payments to employees	<u>(4,094,838)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>63,346</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:	
Proceeds from taxes	<u>2,800,096</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Grant revenues	257,152
Payments on ground water rights payable	(620,000)
Acquisition and construction of capital assets	<u>(6,248,051)</u>
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(6,610,899)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Investment income	104,138
Rental income	407,144
Collections on notes receivable	30,485
Purchase of investments	(3,532,623)
Proceeds from sale or maturity of investments	<u>6,453,898</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>3,463,042</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(284,415)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>4,348,535</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 4,064,120</u></u>

See accompanying notes to financial statements.

(Continued)

LAGUNA BEACH COUNTY WATER DISTRICT

STATEMENT OF CASH FLOWS  
(CONTINUED)

For the year ended June 30, 2017

RECONCILIATION OF OPERATING LOSS TO NET CASH  
PROVIDED BY OPERATING ACTIVITIES:

Operating loss	\$ (2,714,591)
Depreciation	2,045,496
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:	
(Increase) decrease in receivables - customer accounts	(98,719)
(Increase) decrease in computer loans to employees	4,457
(Increase) decrease in inventory	(57,345)
(Increase) decrease in prepaid expenses	(5,117)
(Increase) decrease in deferred outflows of resources related to pensions	(874,398)
Increase (decrease) in accounts payable	561,159
Increase (decrease) in accrued payroll and related costs	40,494
Increase (decrease) in deposits	676
Increase (decrease) in other post-employment benefits liability	89,642
Increase (decrease) in pension liability	1,415,297
Increase (decrease) in deferred inflows of resources related to pensions	<u>(343,705)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 63,346</u>

See accompanying notes to financial statements.

# LAGUNA BEACH COUNTY WATER DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

#### a. Reporting Entity:

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

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

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

On January 1, 2004, Emerald Bay Services District was de-annexed from the District's service area. This represents approximately 556 customers or 6% of the services served by the District and accounts for approximately 251 acre-feet of water provided by the District. The District continues to provide water service and administrative support through an agreement with Emerald Bay Services District.

The District's 8,190 service connections serve mostly residential water users. The District sells about 3,052 acre-feet of water annually. This is equal to approximately 1.14 billion gallons delivered on an annual basis. An acre-foot is enough water to cover a football field one-foot deep or serve two average-sized households for a year.

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

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2017

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

b. Change in Organization:

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

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

c. Method of Accounting:

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

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

When both restricted and unrestricted resources are available, it is the District's policy to use unrestricted resources first and then restricted resources as they are needed. As of June 30, 2017, the District had no restricted resources.

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2017

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

d. Net Position Classifications:

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

Net Investment in Capital Assets

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

Restricted Net Position

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

Unrestricted Net Position

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

e. New Governmental Accounting Standards Board (GASB) Accounting Pronouncements:

Current Year Standards

*GASB 73 - Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, contains provisions that address employer and governmental nonemployer contributing entities for pensions that are not within the scope of GASB 68, effective for periods beginning after June 15, 2016 and did not impact the District.

*GASB 74 - Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, effective for periods beginning after June 15, 2016 and did not impact the District.

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2017

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

e. New Governmental Accounting Standards Board (GASB) Accounting Pronouncements (Continued):

Current Year Standards (Continued)

GASB 77 - *Tax Abatement Disclosure*, effective for periods beginning after December 15, 2015 and did not impact the District.

GASB 78 - *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, effective for periods beginning after December 15, 2015 and did not impact the District.

GASB 79 - *Certain External Investment Pools and Pool Participants*, contains certain provisions on portfolio quality, custodial credit risk, and shadow pricing, effective for periods beginning after December 15, 2015 and did not impact the District.

GASB 80 - *Blending Requirements for Certain Component Units*, effective for periods beginning after June 15, 2016 and did not impact the District.

GASB 82 - *Pension Issues*, effective for periods beginning after June 15, 2016, except for certain provisions on selection of assumptions, which are effective in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

Pending Accounting Standards

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

- GASB 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for periods beginning after June 15, 2017.
- GASB 81 - *Irrevocable Split-Interest Agreements*, effective for periods beginning after December 15, 2016.
- GASB 83 - *Certain Asset Retirement Obligations*, effective for periods beginning after June 15, 2018.
- GASB 84 - *Fiduciary Activities*, effective for periods beginning after December 15, 2018.
- GASB 85 - *Omnibus 2017*, effective for periods beginning after June 15, 2017.

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2017

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

e. New Governmental Accounting Standards Board (GASB) Accounting Pronouncements (Continued):

Pending Accounting Standards (Continued)

- GASB 86 - *Certain Debt Extinguishment Issues*, effective for periods beginning after June 15, 2017.
- GASB 87 - *Leases*, effective for periods beginning after December 15, 2019.

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 and will not be recognized as an outflow of resources (expense/expenditure) until that time. The District has the following items that qualify for reporting in this category:

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

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2017

1. DESCRIPTION OF REPORTING ENTITY AND 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 and will not be recognized as an inflow of resources (revenue) until that time. The District has the following items that qualify for reporting in this category:

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

g. Investments:

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

h. Cash and Cash Equivalents:

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



LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2017

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

l. Property Taxes:

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

The property tax calendar is as follows:

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

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

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

m. Pensions:

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

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2017

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

n. Estimates:

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

2. CASH AND INVESTMENTS:

Cash and Investments

Cash and investments reported in the statement of net position as of June 30, 2017 are as follows:

Cash and cash equivalents	\$ 4,064,120
Investments	<u>11,837,349</u>
Total cash and investments	\$ <u>15,901,469</u>

Cash and investments consisted of the following:

Cash on hand	\$ 500
Deposits with financial institutions	334,399
Investments	<u>15,566,570</u>
Total cash and investments	\$ <u>15,901,469</u>

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2017

2. CASH AND INVESTMENTS (CONTINUED):

Investment in State Investment Pool

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

Fair Value Measurements

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

The District has the following recurring fair value measurements as of June 30, 2017:

	Quoted Prices Level 1	Observable Inputs Level 2	Unobservable Inputs Level 3	Total
United States Government-Sponsored				
Agency Securities	\$ -	\$ 1,131,823	\$ -	\$ 1,131,823
Negotiable Certificates of Deposit	4,124,327	-	-	4,124,327
Medium-Term Corporate Notes	4,607,961	-	-	4,607,961
Municipal Notes or Bonds	-	1,973,238	-	1,973,238
Total Leveled Investments	<u>\$ 8,732,288</u>	<u>\$ 3,105,061</u>	<u>\$ -</u>	11,837,349
Investments not subject to fair value hierarchy:				
Local Agency Investment Fund				<u>3,729,221</u>
Total				<u>\$ 15,566,570</u>

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2017

3. NOTES RECEIVABLE:

Related-Party Notes Receivable

On April 23, 2002, the Board of Directors approved a loan to the District's general manager for purchase of a residence, the location of which is restricted within the parameters listed in the agreement. The loan was funded on August 15, 2002. The loan is payable in biweekly payments, beginning on the first day of October 2002, and amortized over a period of 25 years. Interest rate is variable and is payable biweekly at rates of 0.25% over the LAIF rate with a cap rate of 7%. The loan is secured by a deed of trust on the residence. At June 30, 2017, the outstanding balance on the note was \$199,245.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 20,789	\$ 3,135	\$ 23,924
2019	21,091	2,833	23,924
2020	21,398	2,526	23,924
2021	21,709	2,215	23,924
2022	22,025	1,899	23,924
2023-2027	<u>92,233</u>	<u>4,363</u>	<u>96,596</u>
	<u>\$ 199,245</u>	<u>\$ 16,971</u>	<u>\$ 216,216</u>

4. CAPITAL ASSETS:

The following is a summary of changes in capital assets at June 30, 2017:

	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2017</u>
Capital assets, not being depreciated:				
Land and land rights	\$ 4,517,179	\$ -	\$ -	\$ 4,517,179
Construction in progress	<u>340,896</u>	<u>6,426,833</u>	<u>(2,832,056)</u>	<u>3,935,673</u>
Total capital assets, not being depreciated	<u>4,858,075</u>	<u>6,426,833</u>	<u>(2,832,056)</u>	<u>8,452,852</u>

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2017

6. COMPENSATED ABSENCES:

In accordance with the requirements of GASB Codification C60.110, *Accounting for Compensated Absences*, the District has accrued the potential liability for accrued vacation pay totaling \$361,203 as of June 30, 2017. Employees earn vacation and sick leave each month at various rates depending on length of service. Sick leave can be accumulated and rolled over into the retirement plan (see Note 7). The CalPERS's system includes an estimate for this amount in its actuarial calculations. There is no material amount of sick leave accrued that is not provided for by CalPERS calculation; therefore, no sick leave amount has been accrued in the District's financial statements.

7. RETIREMENT PLAN:

a. General Information about the Pension Plan:

Plan Description

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

Benefits Provided

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

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2017

7. RETIREMENT PLAN (CONTINUED):

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

Benefits Provided (Continued)

The pension plan's provisions and benefits in effect for the year ended June 30, 2017 are summarized as follows:

	<u>Miscellaneous</u>	
	<u>Prior to January 1, 2013</u>	<u>On or After January 1, 2013</u>
Hire date		
Benefit formula	2.0%@55	2%@62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	Monthly for life	Monthly for life
Retirement age	50-55	52-67
Monthly benefits, as a % of eligible compensation	1.4% to 2.4%	1.0% to 2.5%
Required employee contribution rates	7.00%	6.25%
Required employer contribution rates:		
Normal cost rate	8.880%	6.555%
Payment of unfunded liability - prepayment amount	\$173,147	\$102

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

As of June 30, 2017, the District reported net pension liabilities for its proportionate share of the net pension liability of the PERF C risk pool as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous	<u>\$ 5,001,411</u>

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2017

7. RETIREMENT PLAN (CONTINUED):

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

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

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

	<u>Miscellaneous</u>
1% Decrease Net Pension Liability	6.65% \$ 8,094,990
Current Discount Rate Net Pension Liability	7.65% \$ 5,001,411
1% Increase Net Pension Liability	8.65% \$ 2,444,722

Pension Plan's Fiduciary Net Position

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

Subsequent Events

In December 2016, CalPERS' Board of Directors voted to lower the discount rate used in its actuarial valuations from 7.5% to 7.0% over three fiscal years, beginning in fiscal year 2018. The change in the discount rate will affect the contribution rates for employers beginning in fiscal year 2019, and result in increases to employers' normal costs and unfunded actuarial liabilities. For the GASB Statement 68 accounting valuations, the discount rate will move straight to 7% starting with the June 30, 2017 measurement date reports and will result in an increase to employer's total pension liabilities.

- c. Payable to the Pension Plan:

At June 30, 2017, the District had no outstanding amount of contributions to the pension plan required for the year ended June 30, 2017.

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2017

8. OTHER POST-EMPLOYMENT BENEFITS (OPEB):

a. Plan Description:

The District, through a single-employer defined benefit plan, provides post-employment health-care benefits. Specifically, the District provides health insurance for its retired employees and their dependent spouses (if married and covered on the District's plan at time of retirement). Medical coverage is provided for retired employees who are in an age range of 60 until the age of 65 is reached and who have served the District on a full-time basis for ten continuous years. The employee must have participated in the District's CalPERS plan during their tenure with the District. The employee must have applied for and be receiving service retirement benefits pursuant to the terms and conditions of the District's CalPERS plan. The District pays 100% of the plan premium for retiree coverage from the date of retirement until the date the retired employee becomes eligible to receive Medicare benefits. Coverage for a retired employee's spouse under the health insurance plan is at the sole cost of the employee. The District's obligation to provide benefits ceases upon death of retiree or Medicare eligibility, whichever is earlier. The 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 due to the insignificant amount that the District is paying each year. For the year ended June 30, 2017, the District had six eligible retired employees.

c. Annual OPEB Cost and Net OPEB Obligation:

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC). The District has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than 100 plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded liabilities of the plan over a period not to exceed 30 years.



LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2017

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

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

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

Annual required contribution	\$	163,542
Interest on net OPEB obligation		33,451
Adjustment to annual required contribution		<u>(49,240)</u>
Annual OPEB cost (expense)		147,753
Actual contributions made		<u>(58,111)</u>
Increase in net OPEB obligation		89,642
Net OPEB obligation - beginning of year		<u>836,273</u>
Net OPEB obligation - end of year	\$	<u>925,915</u>

d. Funded Status and Funding Progress:

The District's annual OPEB cost, the percentage of annual OPEB costs contributed to the plan, and the net OPEB obligation for the year ended June 30, 2017, the seventh year in which GASB Statement 45 is required to be implemented, were as follows:

Fiscal Year Ended	Annual OPEB Cost	% of Annual OPEB Costs Contributed	Net OPEB Obligation
6/30/11	\$ 165,530	0.00%	\$ 331,060
6/30/12	165,530	9.62%	480,674
6/30/13	112,713	14.66%	576,857
6/30/14	88,612	20.14%	647,625
6/30/15	99,752	17.64%	729,782
6/30/16	150,530	29.26%	836,273
6/30/17	147,753	39.33%	925,915

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

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2017

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

d. Funded Status and Funding Progress (Continued):

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about rates of employee turnover, retirement, and mortality, as well as economic assumptions regarding claim costs per retiree, health-care inflation, and interest rates. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision, as actual results are compared with past expectations and new estimates are made about the future. The other post-employment benefits plan schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

e. Actuarial Methods and Assumptions:

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the July 1, 2015 actuarial investment valuation, the projected unit credit method was used. The actuarial assumptions included a 4% investment rate of return, and the District's share of health-care trend rates will increase at a rate of 8% for the year 2015, 7% for the year 2016, 6% for the year 2017, and 5% for the years 2018 and thereafter. The District's unfunded actuarial accrued liability will be amortized over 30 years.

9. WATER RIGHT FEE PAYABLE:

On January 20, 2016, the District entered into an agreement with the Orange County Water District (OCWD) regarding the District's groundwater production within the OCWD groundwater basin. Pursuant to the agreement, the District obtained the right to annually produce 2,025 acre-feet of groundwater for \$3,100,000. This fee is to be paid in five equal installments of \$620,000 commencing within 10 days of the District extracting groundwater. As of June 30, 2017, the total amount due is \$2,480,000.

LAGUNA BEACH COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2017

10. UNRESTRICTED NET ASSETS:

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

Board-designated amounts:	
Operating reserve fund	\$ 1,820,513
Self-insurance/emergency reserve fund	1,514,284
Rate stabilization reserve fund	749,007
Employee liabilities	425,539
Capital replacement	4,686,139
Total Board-designated amounts	<u>9,195,482</u>
Undesignated	<u>2,037,075</u>
Total unrestricted net assets	<u>\$ 11,232,557</u>

11. RISK MANAGEMENT:

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

At June 30, 2017, the District participated in the self-insurance programs of the Insurance Authority as follows:

Property Loss - The Insurance Authority has pooled self-insurance up to \$100,000 per occurrence and has purchased excess insurance coverage of \$150,000,000 (total insurable value of \$3,900,162). The District has a \$2,500 deductible for buildings, personal property, fixed and mobile equipment, and licensed vehicles and deductibles ranging from \$25,000 to \$50,000 or higher based on usage for boiler and machinery.

General Liability - The Insurance Authority has pooled self-insurance up to \$5,000,000 per occurrence and has purchased excess insurance coverage of \$171,000,000. There is no deductible.

Auto Liability - The District is insured up to \$60,000,000 with no deductible. The Insurance Authority has pooled self-insurance up to \$5,000,000 per occurrence and has purchased excess insurance coverage of \$171,000,000. There is no deductible.

Public Officials' Liability - The District has coverage for errors and omissions. The Insurance Authority has pooled self-insurance up to \$5,000,000 per occurrence and has purchased excess insurance coverage of \$171,000,000.

LAGUNA BEACH COUNTY WATER DISTRICT

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Last Ten Fiscal Years\*

Fiscal Year Ended	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Measurement Period Ended	June 30, 2016	June 30, 2015	June 30, 2014
Plan's Proportion of the Net Pension Liability	0.05780%	0.05225%	0.05444%
Plan's Proportionate Share of the Net Pension Liability	\$ 5,001,411	\$ 3,586,114	\$ 3,387,510
Plan's Covered Employee Payroll	\$ 3,633,568	\$ 3,403,024	\$ 3,465,886
Plan's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	137.64%	105.38%	97.74%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	74.06%	78.40%	83.52%
Plan's Proportionate Share of Aggregate Employer Contributions	\$ 669,441	\$ 437,758	\$ 464,098

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

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

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

LAGUNA BEACH COUNTY WATER DISTRICT

SCHEDULE OF CONTRIBUTIONS - DEFINED BENEFIT PENSION PLAN

Last Ten Fiscal Years\*

Fiscal year ended	June 30, 2017	June 30, 2016	June 30, 2015
Contractually required contribution (actuarially determined)	\$ 502,006	\$ 447,696	\$ 341,282
Contributions in relation to the actuarially determined contributions	<u>(502,006)</u>	<u>(447,696)</u>	<u>(341,282)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered - employee payroll	\$ 3,828,081	\$ 3,633,568	\$ 3,403,024
Contributions as a percentage of covered - employee payroll	13.11%	12.32%	10.03%

Notes to Schedule:

Valuation Date 6/30/2013

Methods and Assumptions Used to Determine Contribution Rates:

Cost-sharing employers Entry age\*\*  
 Amortization method Level percentage of payroll, closed\*\*  
 Asset valuation method Market value\*\*\*  
 Inflation 2.75%\*\*  
 Salary increases Depending on age, service, and type of employment\*\*  
 Investment rate of return 7.50%, net of pension plan investment expense, including inflation\*\*  
 Retirement age 50 years (2%@55 and 2%@60), 52 years (2%@62) \*\*  
 Mortality Mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board, first used in the June 30, 2009 valuation. For purposes of the post-retirement mortality rates, those revised rates include five years of projected ongoing mortality improvement using Scale AA published by the Society of Actuaries until June 30, 2010. There is no margin for future mortality improvement beyond the valuation date.\*\*

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

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

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

LAGUNA BEACH COUNTY WATER DISTRICT  
 OTHER POST-EMPLOYMENT BENEFITS PLAN  
 SCHEDULE OF FUNDING PROGRESS

For the year ended June 30, 2017

**Retiree Health Plan**

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

## Internal Control over Financial Reporting (Continued)

### Significant Deficiency – Grant Funding

We noted that the District was awarded reimbursement-based grant funding for a capital project during the year and recorded the grant reimbursements as a reduction to the capital project's construction-in-progress account balance. The grant reimbursements should have been recorded as a nonoperating revenue instead. As a result, grant revenue and construction in progress were understated. The District does not receive grant funding on a regular basis and therefore was not familiar with the accounting requirements. We recommend that the District establishes written policies and procedures related to the receipt of future grant funding awards so that staff will be able to account for such activities accurately.

### **Compliance and Other Matters**

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

We noted certain matters that we have reported to management and the Board of Directors in a separate letter dated January 26, 2018.

### **Purpose of This Report**

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

*White Nelson Dick Turner LLP*

Irvine, California  
January 26, 2018