

**LEE LAKE WATER DISTRICT**  
**ANNUAL FINANCIAL REPORT**

For the Fiscal Years Ended  
June 30, 2015 and 2014

**Lee Lake Water District**  
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June 30, 2015 and 2014

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Lee Lake Water District  
Corona, California

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

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of the Lee Lake Water District (the "District"), as of and for the years ended June 30, 2015 and 2014, 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.

### ***Auditor's Responsibility***

Our responsibility is to express opinions 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.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of the Lee Lake Water District, as of June 30, 2015 and 2014, and the changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Change in Accounting Principle***

As described in Note 6 to the financial statements, as of June 30, 2015, the District adopted new accounting guidance, *GASB Statement No. 68, Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during 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.

#### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The schedule listed in the Supplementary Information section of the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule listed in the Supplementary Information section of the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used

to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule listed in the Supplementary Information section of the table of contents is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated January 15, 2016 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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.

*Van Lant + Fankhaed, LLP*

January 15, 2016

**LEE LAKE WATER DISTRICT**  
**Management's Discussion and Analysis**  
June 30, 2015

Our discussion and analysis of Lee Lake Water District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2015. Please read it in conjunction with the District's financial statements, which begin on page 12.

**Financial Highlights**

- The District's Net Position increased \$ 1,153,683 or 1.5 percent in the current year as a result of \$ 1,126,823 from operations and \$ 26,860 from other fees.
- Current assets and other restricted assets increased by \$ 1,044,915 mainly due to the net effect of an increase in current assets of \$ 616,508 and an increase in restricted assets of \$ 428,407.
- Current year operating revenues decreased by \$ 3,104,622 due to decreases in connection fees. While operating expenses increased by \$ 98,224 due mainly to higher utility costs.
- Capital asset contributions received from developers were zero in the current year and zero in the prior year, due to no granting of completed facilities within housing developments in the District's service area.
- Total revenues were \$8.9 million and \$ 11.9 million and total expenses were \$7.9 million and \$7.8 million for the current year and prior year, respectively.
- See accompanying charts for revenue and expense details, as well as capital expenditures.

**Using This Annual Report**

This annual report consists of a series of financial statements. The statements of net position and statements of revenues, expenses, and changes in net position (on pages 12 through 15) provide information about the activities of the District as a whole and present a longer-term view of the District's finances.

**Reporting on the District as a Whole**

Our analysis of the District as a whole begins on page 4. One of the most important questions asked about the District's finances is, "Is the District as a whole better off or worse off as a result of the year's activities?" The statements of net position and the statements of revenues, expenses, and changes in net position, report information about the District as a whole and about its activities 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 used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

**LEE LAKE WATER DISTRICT**  
**Management's Discussion and Analysis**  
**(Continued)**  
June 30, 2015

These financial statements report the District's net position and changes in them. You 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. You will need to consider other non financial factors, such as changes in the District's property tax base and the condition of the District's water and sewer facilities, to assess the overall health of the District.

The District reports in the statements of net position and the statements of revenues expenses, and changes in net position two types of activities, water and sewer services. All District activities are reported in these statements.

**The District as a Whole**

The District's net position increased to \$76.8 million from \$75.6 million. Our analysis below focuses on the net position (Table 1) and the changes in net position (Table 2) of the District's activities.

**Table 1**  
**Net Position (in Millions)**  
**June 30**

	2015	2014	2013
Capital assets	\$59.1	\$ 56.2	\$ 52.2
Current and other restricted assets	21.7	20.5	20.5
Total assets	80.8	76.7	72.7
Deferred Outflows of Resources	.1	0	0
Current Liabilities	1.6	3.9	1.5
Noncurrent Liabilities	2.5	0	0
Total liabilities	4.1	3.9	1.5
Deferred Inflows of Resources	0	0	0
Net Position			
Net Investment in Capital Assets	56.7	56.3	52.2
Unrestricted	20.1	20.0	19.0
Total net position	\$76.8	\$76.3	\$71.2

The net position increased by \$1,153,683 in 2015, \$4,386,906 in 2014 and \$656,895 in 2013. Unrestricted net position (the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements) increased by \$725,276. This increase arose primarily as a result of an increase in income from residential and commercial developments.

**LEE LAKE WATER DISTRICT**  
**Management's Discussion and Analysis**  
**(Continued)**  
June 30, 2015

**Table 2**  
**Changes in Net Position (in millions)**  
**June 30**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Operating revenues	\$ 8.9	\$11.9	\$7.9
Operating expenses	7.9	7.8	7.3
Operating income (loss)	0.9	4.1	.6
Non-operating revenues, net	.2	.2	.1
Capital contributions	-	-	-
Change in net position	<u>\$1.1</u>	<u>\$ 4.3</u>	<u>\$ .7</u>

The District's operating revenues decreased by 25.9 percent in the current year. Operating expenses increased by 1.2 percent. The factors driving these results include:

- Operating revenues decreased by \$3,104,622. The decrease was due to lower water connection fees collected over prior year. Operating expenses increased by 1.2% due to an increase in utility expense.
- The District had 4,670 active water services at June 30, 2015 as compared to 4,611 active services at June 30, 2014 and 4,547 active services at June 30, 2013. This represents a net increase of 59 active meters or 1.3 percent.
- Capital asset contributions by developers were zero in 2015, zero in 2014, and zero in 2013, as a result of the completion and dedication of new water and sewer facilities within the new housing developments inside the District.

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal year 2015, the District had \$60.1 million invested in a broad range of capital assets including land, water reclamation facilities, reservoirs, water transportation facilities, water and sewer mains, and sewage collection, treatment, and disposal systems, and buildings and equipment (see Table 3 below).

**LEE LAKE WATER DISTRICT**  
**Management's Discussion and Analysis**  
(Continued)  
June 30, 2015

**Table 3**  
**Capital Assets at Year-End (in millions)**  
**June 30**

	2015	2014	2013
Land	\$ .9	\$ .9	\$ .9
Water capacity rights	13.5	13.5	8.5
Construction in progress	2.5	.5	.9
Capital assets (net of depreciation)	42.2	41.3	42.0
	\$ 59.1	\$ 56.2	\$ 52.3

**Debt**

At June 30, 2015, the District had \$2,478,515 in long-term debt.

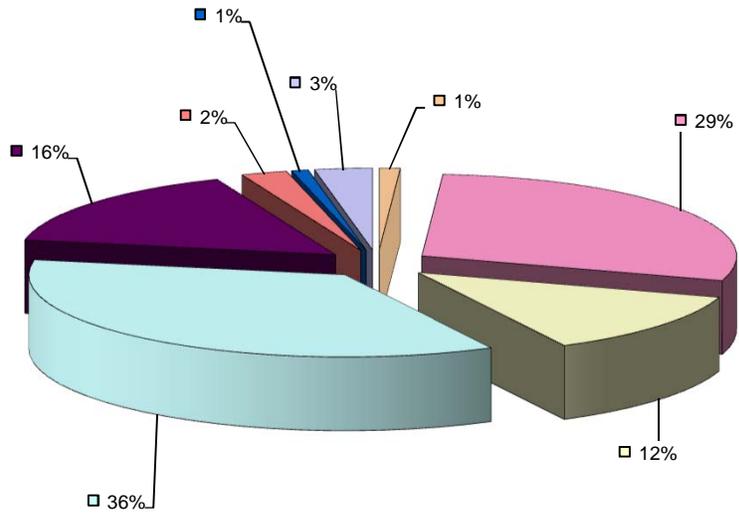
**Factors Bearing on the District's Future**

The District is currently experiencing very little growth in residential housing within its service area. In the 2014-2015 fiscal year, the customer base increased only by 1.4 percent. New and planned residential communities totaling approximately 1,914 residences are projected to be completed in the future. This new growth will increase the size of the District's customer base. These planned residential communities are in various stages of construction and planning. As water and sewer facilities are completed and accepted by the District, the facilities will become part of the District's capital assets and subject to operation by the District.

**Contacting the District's Financial Management**

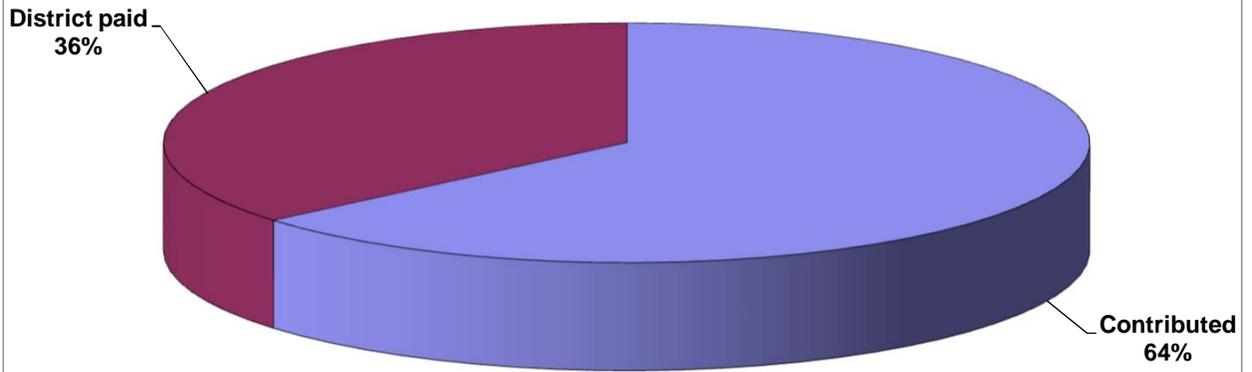
The financial report is designed to provide our citizens, taxpayers, and customers with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Manager at: Lee Lake Water District, 22646 Temescal Canyon Road, Temescal Canyon, California 92883.

**Lee Lake Water District  
Capital Assets  
June 30, 2015**



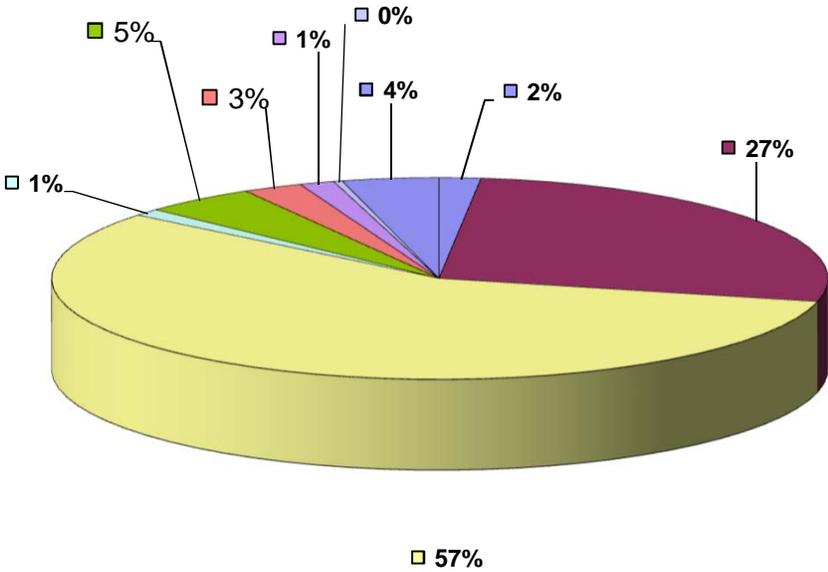
- |                         |                              |  |                                 |
|-------------------------|------------------------------|--|---------------------------------|
| ■ Land                  | ■ Water reclamation facility | ■ Reservoirs & water transportation facilities | ■ Water, sewer & recycled mains |
| ■ Water capacity rights | ■ Equipment                  | ■ Office building improvements                 | ■ Construction in progress      |

**Lee Lake Water District  
Percentage of Capital Assets Contributed  
June 30, 2015**



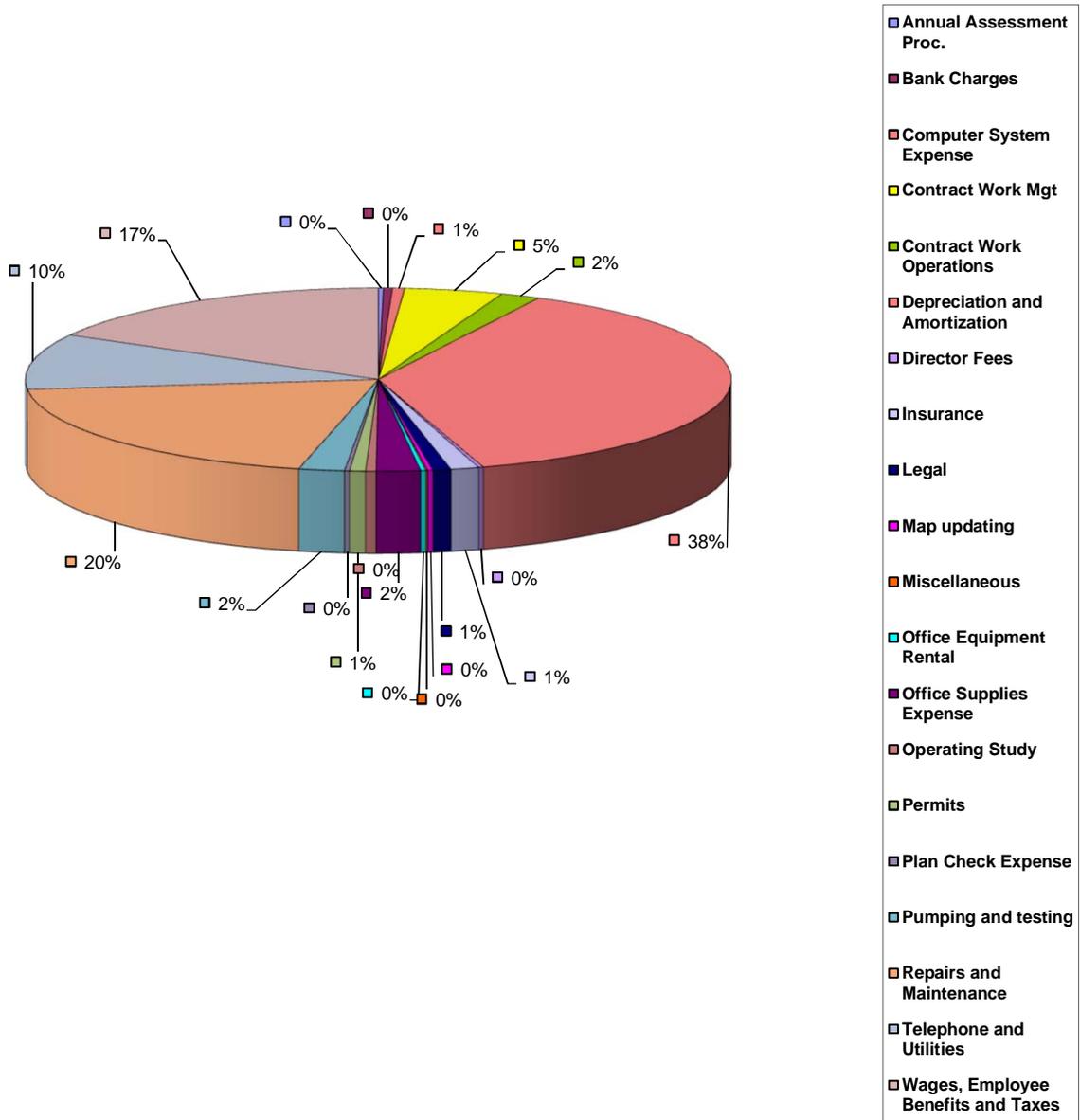
■ Contributed   ■ District paid

**Lee Lake Water District  
Operating Revenue  
Year ended June 30, 2015**



- |                                   |                                 |
|-----------------------------------|---------------------------------|
| ■ Standby charges                 | ■ Sewer service fees            |
| ■ Water service fees              | ■ Connection fees               |
| ■ Recycled/Nonpotable water sales | ■ MWD Readiness to serve charge |
| ■ Property Taxes                  | ■ Interest income               |
| ■ Other                           |                                 |

**Lee Lake Water District  
Operating Expenses  
Year ended June 30, 2015**



## **BASIC FINANCIAL STATEMENTS**

**Lee Lake Water District**  
**Statement of Net Position**  
June 30, 2015 and 2014

	2015	2014
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 19,586,023	\$ 19,010,159
Accounts Receivable:		
Utility	864,243	873,183
Other	34,819	30,113
Accrued Interest Receivable	10,094	7,856
Prepaid Expenses	5,085	57,706
Inventory	160,521	65,260
Total Current Assets	20,660,785	20,044,277
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	1,004,906	3,197,004
Capital Assets Not Being Depreciated:		
Land	902,118	902,118
Water Capacity Rights	13,503,639	13,503,639
Construction in Progress	2,493,864	481,590
Capital Assets, Net of Accumulated Depreciation	42,237,857	41,343,209
Total Noncurrent Assets	60,142,384	59,427,560
Total Assets	80,803,169	79,471,837
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred Pension Contributions	83,438	-
Proportionate Share Contribution Differences	30,309	-
Total Deferred Outflows of Resources	113,747	-
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable	278,843	190,695
Payable to Other Governmental Agencies	244,197	395,784
Due to Agency Fund	-	2,610,636
Accrued Salaries and Refunds	57,255	44,563
Related Party Payable	17,570	46,003
Excess Sewer Capacity Deposits	98,330	120,403
Other Deposits	906,576	465,965
Total Current Liabilities	1,602,771	3,874,049
Noncurrent Liabilities:		
Net Pension Liability	30,099	-
Loan Payable	2,478,515	-
Total Noncurrent Liabilities	2,508,614	-
Total Liabilities	4,111,385	3,874,049
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pension Actuarial Amounts	54,060	-
<b>NET POSITION</b>		
Net Investment in Capital Assets	56,658,963	56,230,556
Unrestricted	20,092,508	19,367,232
Total Net Position	\$ 76,751,471	\$ 75,597,788

The accompanying notes are an integral part of this statement.

**Lee Lake Water District**  
**Statement of Revenues, Expenses and Changes in Net Position**  
For the Years Ended June 30, 2015 and 2014

	2015	2014
<b>OPERATING REVENUES</b>		
Standby Charges	\$ 157,347	\$ 171,170
Sewer Service Fees	2,441,241	2,412,458
Water Service Fees	5,594,465	5,573,565
Connection Fees	101,688	3,487,561
Service Meter Income	23,800	5,820
Other	563,710	336,299
Total Operating Revenues	8,882,251	11,986,873
<b>OPERATING EXPENSES</b>		
Annual Assessment Processing	11,390	11,394
Bank Charges	19,893	20,467
Computer System	27,282	24,461
Community Outreach		9,685
Contract Work - Management and Administrative	221,000	223,421
Contract Work - Operations and Engineering	88,870	60,748
Depreciation and Amortization	1,846,854	1,774,774
Director Fees	10,899	7,678
Insurance	63,033	62,411
Legal and Accounting	40,295	31,952
Map Updating	11,548	87,481
Miscellaneous	4,085	6,133
Office Equipment Rental	12,040	12,495
Office Supplies and Expenses	98,275	101,513
Operating Study	23,432	16,467
Permits	35,877	32,336
Plan Check/Inspection Fees and Studies	10,773	7,260
Pumping and Testing	102,346	84,859
Repairs, Maintenance, and Supplies	962,982	918,584
Telephone and Utilities	480,963	381,331
Wages, Employee Benefits, and Payroll Taxes	829,571	804,534
Water - Purchased	3,044,597	3,167,797
Total Operating Expenses	7,946,005	7,847,781
Operating Income (Loss)	936,246	4,139,092
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Property Taxes	131,679	116,131
Interest Income	33,185	34,313
Loss on Disposal of Capital Asset	-	(4,212)
Other	25,713	101,582
Total Non-Operating Revenues (Expenses)	190,577	247,814
Change in Net Position	1,126,823	4,386,906
Net Position - Beginning of Year	75,597,788	71,210,882
Restatement of Net Position	26,860	-
Net Position - End of Year	\$ 76,751,471	\$ 75,597,788

The accompanying notes are an integral part of this statement.

**Lee Lake Water District**  
**Statement of Cash Flows**  
For the Years Ended June 30, 2015 and 2014

	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from Customers	\$ 8,886,485	\$ 11,913,726
Payments to Employees	(819,607)	(912,263)
Payments to Suppliers	(5,518,443)	(5,420,086)
Other Revenue	25,713	101,582
	<u>2,574,148</u>	<u>5,682,959</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Property Taxes	131,679	116,131
	<u>131,679</u>	<u>116,131</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from Loans	2,644,000	-
Principal Payments on Loans	(165,485)	-
Purchases of Capital Assets	(4,639,425)	(5,771,506)
	<u>(2,160,910)</u>	<u>(5,771,506)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on Cash and Cash Equivalents	30,947	35,085
	<u>30,947</u>	<u>35,085</u>
Net (Decrease) Increase in Cash and Cash Equivalents	575,864	62,669
Cash and Cash Equivalents - Beginning of Year	19,010,159	18,947,490
Cash and Cash Equivalents - End of Year	<u>\$ 19,586,023</u>	<u>\$ 19,010,159</u>

The accompanying notes are an integral part of this statement.

**Lee Lake Water District**  
**Statement of Cash Flows - Continued**  
For the Years Ended June 30, 2015 and 2014

	2015	2014
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating Income (Loss)	\$ 936,246	\$ 4,139,092
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	1,846,854	1,774,774
Other Revenue	25,713	101,582
Change in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable:		
Utility	8,940	(73,745)
Other	(4,706)	598
(Increase) Decrease in Prepaids	52,621	(37,389)
(Increase) Decrease in Inventory	(95,261)	(938)
(Increase) Decrease in Deferred Outflows Pension Contributions	(144)	-
(Increase) Decrease in Deferred Outflows Proportionate Difference	(30,309)	-
Increase (Decrease) in Accounts Payable	(26,203)	(317,498)
Increase (Decrease) in Payable to Other Governmental Agencies	(151,587)	88,419
Increase (Decrease) in Accrued Salaries and Refunds	12,692	(3,755)
Increase (Decrease) in Net Pension Liability	(26,335)	-
Increase (Decrease) in Deferred Inflows Pension Actuarial	54,060	-
Increase (Decrease) in Related Party Payable	(28,433)	11,819
	\$ 2,574,148	\$ 5,682,959
<b>SCHEDULE OF NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets on account	\$ 114,351	\$ -

The accompanying notes are an integral part of this statement.

**Lee Lake Water District**  
**Statements of Fiduciary Assets and Liabilities**  
**Agency Fund**  
June 30, 2015 and 2014

	2015	2014
<b>ASSETS</b>		
Cash and Investments with Fiscal Agent	\$ 12,773,195	\$ 12,479,330
Due from Water District	-	2,610,636
Total Assets	\$ 12,773,195	\$ 15,089,966
<b>LIABILITIES</b>		
Due to Bondholders	\$ 12,773,195	\$ 15,089,966
Total Liabilities	\$ 12,773,195	\$ 15,089,966

The accompanying notes are an integral part of this statement.

**Lee Lake Water District**  
**Notes to Financial Statements**  
June 30, 2015 and 2014

**1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The reporting entity includes the accounts of the general District and the related improvement districts located within the service area of the general District. The District is a special district created for the purpose of providing water, water treatment, and sewage disposal services to customers within its service area. The District has a contract to purchase a majority of their water from Western Municipal Water District. In a past year, the District's board of directors ratified the formation of the Lee Lake Water District Financing Corporation to facilitate the issuance of certificates of participation. The certificates may be issued to assist in the financing of costs of design and engineering of certain sewer system and water system improvements. Although the Financing Corporation qualifies as a component unit for inclusion within these financial statements, the certificates have not been issued and there has been no other activity to record in these financial statements to date.

**Basis of Accounting and Measurement Focus**

As a governmental agency, the District is subject to accounting and reporting standards established by the Governmental Accounting Standards Board (GASB). As the majority of revenues consist of water sales and related services, the District as a whole, for financial statements purposes, is classified as a proprietary fund. Separate financial statements are provided for the proprietary fund and the agency fund. The District uses the accrual basis of accounting. The financial activities of the District are accounted for using the economic resources measurement focus. Under this method, all assets and liabilities associated with its operations are included on the statement of net position; revenues are recorded when earned and become measurable; and expenses are recorded when liabilities are incurred.

The District reports its water and sewer operations as a single enterprise fund. Additionally, the District reports an agency fund to account for money received by the District as an agent for individuals, other governments and other entities. Specifically, the District accounts for activities of the Community Facilities Districts in the agency fund. The agency fund is reported using the accrual basis of accounting.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, the District considers all short-term debt securities purchased with an original maturity of three months or less to be cash equivalents. The District invests funds with the State of California Pooled Local Agency Investment Fund (LAIF). Due to the high liquidity of this investment, the funds are classified as a cash equivalent. Fair value in external investments pools such as LAIF are determined based on the District's pro rate share of the fair value of the Pool's underlying portfolio. Some of the cash and cash equivalents have been classified as restricted in accordance with applicable standards, and are not included in the statement of cash flows.

**Lee Lake Water District**  
**Notes to Financial Statements**  
June 30, 2015 and 2014

**1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Inventory**

Inventory consists of supplies and excess Equivalent Dwelling Units (EDUs) and is recorded at the lower of cost (first-in, first-out) or market.

**Capital Assets**

The District records the acquisition of capital assets and additions, improvements, and other capital outlays that significantly extend the life of an asset. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate.

Capital assets include contributed assets. Contributed assets are recorded at the fair market value or, if fair market value cannot be determined, the estimated cost of the contribution at the date of donation. Capital assets purchased by the District are carried at cost. Assets are depreciated using the straight-line method of depreciation over their estimated useful lives ranging from five to fifty years.

**Revenue and Expenses**

Revenues and expenses are distinguished between operating and nonoperating items. Operating revenues generally result from providing services in connection with the District's principal ongoing operations. The principal operating revenues of the District are fees in connection with providing water and sewer services to customers.

Operating expenses include the costs of providing water and sewer services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

**Property Taxes**

Property taxes are assessed and collected each fiscal year according to the following property tax calendar:

Lien Date	March	
Levy Date	July 1 to June 30	
Due Date	November 1	1st Installment
	March 1	2nd Installment
Collection Date	December 10	1st Installment
	April 10	2nd Installment

**Lee Lake Water District**  
**Notes to Financial Statements**  
June 30, 2015 and 2014

**1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

The District assesses its property taxes through the County tax rolls. Property taxes are recognized as revenue in the period for which the taxes are levied.

**Reclassification**

Certain reclassifications have been made to prior fiscal year amounts to conform with the current fiscal year financial statement presentations.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense) until then. The District reports deferred outflows as a result of the District's implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District reports deferred inflows as a result of the District's implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which qualify for reporting in this category.

**Net Position**

The difference between assets and liabilities is reported as net position. Net position is classified as either net investment in capital assets, restricted, or unrestricted.

Net investment in capital assets, consist of capital assets, net of accumulated depreciation and reduced by the outstanding principal of related debt. Restricted net position reflects the carrying value of assets less related liabilities that have external constraints placed on them by creditors, grantors, contributors, laws, or regulations of other governments, or through constitutional provisions, or enabling legislation. Unrestricted net position represents the remaining fund equity balance.

**Lee Lake Water District**  
**Notes to Financial Statements**  
June 30, 2015 and 2014

**1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Net Position Flow Assumption**

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

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

**Pension Plan**

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

**2) CASH AND INVESTMENTS**

Cash and investments as of June 30, 2015 and June 30, 2014 are classified in the accompanying financial statements as follows:

	2015	2014
Statement of Net Position:		
Cash and Cash Equivalents	\$ 19,586,023	\$ 19,010,159
Restricted Cash and Cash Equivalents	1,004,906	3,197,004
Total Cash and Investments - Statement of Net Position	\$ 20,590,929	\$ 22,207,163
Statement of Fiduciary Assets and Liabilities:		
Cash and Investments with Fiscal Agent	\$ 12,773,195	\$ 12,479,330

**Lee Lake Water District**  
**Notes to Financial Statements**  
June 30, 2015 and 2014

**2) CASH AND INVESTMENTS - Continued**

Cash and investments as of June 30, 2015 and June 30, 2014 consist of the following:

	<u>2015</u>	<u>2014</u>
Cash on Hand	\$ 400	\$ 400
Deposit with Financial Institutions	6,311,123	7,958,305
Investments in LAIF	<u>14,279,406</u>	<u>14,248,458</u>
 Total Cash and Investments	 <u>\$20,590,929</u>	 <u>\$ 22,207,163</u>
 Cash and Investments with Fiscal Agent:		
Money Market Funds	<u>\$12,773,195</u>	<u>\$ 12,479,330</u>
 Total Cash and Investments with Fiscal Agent	 <u>\$12,773,195</u>	 <u>\$ 12,479,330</u>

**Investments Authorized by the District's Investment Policy**

The District's investment policy authorizes investment in the local government investment pool administrated by the State of California (LAIF). The District's investment policy does not contain any specific provisions intended to limit the District's exposure to interest rate risk, credit risk, and concentration of credit risk. Investment of debt proceeds held by bond trustees is governed by the provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy.

**Disclosures Relating to Interest Rate Risk**

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

**Lee Lake Water District**  
**Notes to Financial Statements**  
June 30, 2015 and 2014

**2) CASH AND INVESTMENTS - Continued**

Information about the sensitivity of the fair values of the District's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity as of June 30, 2015:

		Remaining Maturity (in Months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
LAIF	\$14,279,406	\$14,279,406	\$ -	\$ -	\$ -
Cash and Investments with Fiscal Agent:					
Money Market Funds	<u>12,773,195</u>	<u>12,773,195</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$27,052,601</u>	<u>\$27,052,601</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**Disclosures Relating to Credit Risk**

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

Investment Type		Minimum Legal Rating	Exempt From Disclosure	Rating as of Year End		
				AAA	AA	Not Rated
LAIF	\$14,279,406	N/A	\$ -	\$ -	\$ -	\$14,279,406
Cash and Investments with Fiscal Agent:						
Money Market Funds	<u>12,773,195</u>	AA	<u>-</u>	<u>12,773,195</u>	<u>-</u>	<u>-</u>
Total	<u>\$27,052,601</u>		<u>\$ -</u>	<u>\$12,773,195</u>	<u>\$ -</u>	<u>\$14,279,406</u>

**Concentration of Credit Risk**

The investment policy of the District contains no limitation on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer that represent 5% or more of total District investments (other than U.S. Treasury securities, mutual funds and external investment pools).

**Lee Lake Water District**  
**Notes to Financial Statements**  
June 30, 2015 and 2014

**2) CASH AND INVESTMENTS - Continued**

**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 do 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. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2015 and June 30, 2014, the District had deposits with financial institutions in excess of federal depository insurance limits of \$6,440,108 and \$7,708,305, respectively, which were collateralized by securities held by the pledging Financial Institution's Agent but not in the District's name.

**Investment in State Investment Pool**

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 the 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.

All temporary investments are with the Local Agency Investment Fund (LAIF) administered by the State Treasurer's Office. The yield of LAIF for the quarter ended June 30, 2015 was 0.299%. The estimated amortized cost and fair value of the LAIF Pool at June 30, 2015 was \$69,614,988,609 and \$69,641,162,418, respectively. The District's share of the Pool at June 30, 2015 was approximately .021 percent. The LAIF is a special fund of the California State Treasury through which local governments may pool investments. Each local government may invest up to \$50,000,000 in the Fund. Investments in LAIF are highly liquid, as deposits can be converted to cash within twenty-four hours without loss of interest. Investments in LAIF are secured by the full faith and credit of the State of California. Included in LAIF's investment portfolio are certain derivative securities or similar products in the form of asset-backed securities totaling \$1,447,948,000. LAIF's (and the District's) exposure to risk (credit, market or legal) is not currently available.

**Lee Lake Water District**  
**Notes to Financial Statements**  
June 30, 2015 and 2014

**3) CAPITAL ASSETS**

Capital assets are presented as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated:				
Land	\$ 902,118	\$ -	\$ -	\$ 902,118
Water Capacity Rights	13,503,639	-	-	13,503,639
Construction in Progress	481,590	2,012,274	-	2,493,864
<b>Total Capital Assets, Not Being Depreciated</b>	<b>14,887,347</b>	<b>2,012,274</b>	<b>-</b>	<b>16,899,621</b>
Capital Assets, Being Depreciated:				
Water Reclamation Facility	22,043,542	20,400	-	22,063,942
Reservoirs	10,544,570	-	-	10,544,570
Water and Sewer Mains	27,474,239	2,644,000	-	30,118,239
Office Building Improvements	114,252	77,102	-	191,354
Sewage Systems (Improvement Districts)	2,381,665	-	-	2,381,665
Equipment - Water and Sewer	1,989,950	-	-	1,989,950
Administration Building	529,200	-	-	529,200
Well Systems	46,014	-	-	46,014
<b>Total Capital Assets, Being Depreciated</b>	<b>65,123,432</b>	<b>2,741,502</b>	<b>-</b>	<b>67,864,934</b>
Less Accumulated Depreciation:				
Water Reclamation Facility	(11,544,451)	(730,683)	-	(12,275,134)
Reservoirs	(2,403,418)	(261,686)	-	(2,665,104)
Water and Sewer Mains	(6,186,122)	(621,985)	-	(6,808,107)
Office Building Improvements	(70,280)	(6,580)	-	(76,860)
Sewage Systems (Improvement Districts)	(2,058,162)	(61,669)	-	(2,119,831)
Equipment - Water and Sewer	(1,320,257)	(141,275)	-	(1,461,532)
Administration Building	(182,588)	(20,900)	-	(203,488)
Well Systems	(14,945)	(2,076)	-	(17,021)
<b>Total Accumulated Depreciation</b>	<b>(23,780,223)</b>	<b>(1,846,854)</b>	<b>-</b>	<b>(25,627,077)</b>
<b>Total Capital Assets Being Depreciated, Net</b>	<b>41,343,209</b>	<b>894,648</b>	<b>-</b>	<b>42,237,857</b>
<b>Capital Assets, Net</b>	<b>\$ 56,230,556</b>	<b>\$ 2,906,922</b>	<b>\$ -</b>	<b>\$ 59,137,478</b>

**Lee Lake Water District**  
**Notes to Financial Statements**  
June 30, 2015 and 2014

**4) EXCESS SEWER CAPACITY DEPOSITS**

In connection with the District's construction of its water reclamation plant, the District can offer "excess" sewer capacity to individuals outside Community Facilities Districts (CFD) 87-5 and 89-1. According to the agreement, the District shall pay to the CFDs, without interest, the reimbursement amount for the oversized sewer capacity utilized by the connection of those parties outside the CFDs. As of June 30, 2015 and 2014, the District held deposits of \$98,330 and \$120,403, respectively, from individuals interested in hooking up to the District's plant. Payment to the CFDs shall be due upon receipt of the full connection fee or commencement of service, whichever is earlier.

**5) DESIGNATIONS OF DISTRICT UNRESTRICTED NET POSITION**

For the amounts reported as unrestricted net position in these financial statements, the District's Board of Directors has designated \$14,394,965 to be set aside for the future major refurbishing or replacement of the wastewater utility plant as of June 30, 2015.

**6) DEFINED BENEFIT PENSION PLAN**

**General Information about the Defined Benefit Pension Plans**

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

**Benefits Provided** – The Plans are cost-sharing multiple-employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). A full description of the pension plan benefit provisions, assumptions for funding purposes but not accounting purposes, and membership information is listed in the June 30, 2013 Annual Actuarial Valuation Report. Details of the benefits provided can be obtained in Appendix B of the June 30, 2013 actuarial valuation report. This report is a publically available valuation report that can be obtained at CalPERS' website under Forms and Publications.

**Lee Lake Water District**  
**Notes to Financial Statements**  
June 30, 2015 and 2014

**6) DEFINED BENEFIT PENSION PLAN – Continued**

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

	Miscellaneous	
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	2% @ 60	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	60	62
Monthly benefits, as a % of eligible compensation	2%	2%
Required employee contribution rates	7%	6.25%
Required employer contribution rates	9.015%	6.25%

**Contributions** – Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the 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. The District pays the required employee contribution on behalf of the employees.

For the year ended June 30, 2015, the contributions recognized as part of pension expense was as follows:

	Miscellaneous
Contributions - employer	\$ 49,909
Contributions - employee (paid by employer)	33,385

**Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions**

As of June 30, 2015, the District reported \$30,099 net pension liability for its proportionate shares of the net pension liability.

**Lee Lake Water District**  
**Notes to Financial Statements**  
June 30, 2015 and 2014

**6) DEFINED BENEFIT PENSION PLAN – Continued**

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2014, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

The District's proportionate share of the net pension liability as of June 30, 2013 and 2014 was as follows:

	<u>Miscellaneous</u>
Proportion - June 30, 2013	0.00172%
Proportion - June 30, 2014	0.00122%
Change - Increase (Decrease)	-0.00050%

For the year ended June 30, 2015, the District recognized pension expense of \$80,710. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 83,438	\$ -
Differences between actual and expected experience	-	-
Changes in assumptions	-	-
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	30,309	31,770
Net differences between projected and actual earnings on plan investments	-	22,290
	<u>                    </u>	<u>                    </u>
Total	<u>\$ 113,747</u>	<u>\$ 54,060</u>

**Lee Lake Water District**  
**Notes to Financial Statements**  
June 30, 2015 and 2014

**6) DEFINED BENEFIT PENSION PLAN – Continued**

\$83,438 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30,		
2016	\$	(6,094)
2017		(6,094)
2018		(5,990)
2019		(5,573)
2020		-
Thereafter		-

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

	<u>Miscellaneous Plan</u>
Valuation date	June 30, 2013
Measurement date	June 30, 2014
Actuarial cost method	entry-age normal
Actuarial assumptions:	
Discount rate	7.50%
Inflation	2.75%
Payroll growth	3.00%
Projected salary increase	(1)
Investment rate of return	7.50% (2)
Mortality	(3)

- (1) Depending on age, service and type of employment
- (2) Net of pension plan investment expenses, including inflation
- (3) Derived using CalPERS' Membership Data for all Funds.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

**Lee Lake Water District**  
**Notes to Financial Statements**  
June 30, 2015 and 2014

**6) DEFINED BENEFIT PENSION PLAN – Continued**

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

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

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

**Lee Lake Water District**  
**Notes to Financial Statements**  
June 30, 2015 and 2014

**6) DEFINED BENEFIT PENSION PLAN – Continued**

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

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (1)	Real Return Years 11+ (2)
Global Equity	47%	5.25%	5.71%
Global Fixed Income	19%	0.99%	2.43%
Inflation Sensitive	6%	0.45%	3.36%
Private Equity	12%	6.83%	6.95%
Real Estate	11%	4.50%	5.13%
Infrastructure and Forestland	3%	4.50%	5.09%
Liquidity	2%	-0.55%	-1.05%

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

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

**Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** – The following presents the District’s proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>Miscellaneous</u>
1% Decrease	6.50%
Net Pension Liability	\$ 77,141
Current Discount Rate	7.50%
Net Pension Liability	\$ 30,099
1% Increase	8.50%
Net Pension Liability	\$ (8,942)

**Pension Plan Fiduciary Net Position** – Detailed information about each pension plan’s fiduciary net position is available in the separately issued CalPERS financial reports.

**Payable to the Pension Plan**

At June 30, 2015, the District reported a payable of \$0 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

**Lee Lake Water District**  
**Notes to Financial Statements**  
June 30, 2015 and 2014

**7) 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; and natural disasters for which the District carries commercial insurance. Premiums are paid annually by the District.

Claims liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. As of June 30, 2015 and June 30, 2014, there were no such liabilities to be reported.

**8) DEBT WITHOUT DISTRICT COMMITMENT**

The District has issued \$79,145,000 in Community Facilities District Special Tax Bonds to finance the acquisition and construction of public improvements within the Community Facilities Districts No. 1, 2, and 3. In July of 2014, the bonds were refinanced and combined into Series A and Series B bonds of \$51,695,000 and \$18,045,000. The refinanced bonds have the same maturity dates with a lower interest rate. The Bonds were issued pursuant to the Mello-Roos Community Facilities Act of 1982, and are special obligations of the District payable solely from revenues derived from special taxes levied on taxable land within the Community Facilities Districts. The Bonds are not general obligations of the District. Neither the faith and credit of the District, nor of either County, nor the State or any related political subdivision, is pledged to the payment of the Bonds. Therefore, these Bonds are not reflected as debt in the District's financial statements. As of June 30, 2015, the remaining balance on the bonds was \$69,740,000.

**9) COMMITMENTS AND CONTINGENCIES**

**Construction Commitments**

The District has active construction projects as of June 30, 2015. At year-end the District's commitments are as follows:

	<u>Costs Incurred</u>	<u>Remaining Commitment</u>
Recycled Pipeline	\$ 1,852,401	\$ 3,240,256
Dawson Canyon Reservoir - Design	11,505	133,495
Dawson Canyon Reservoir - Build	18,994	2,197,006
	<u>\$ 1,882,900</u>	<u>\$ 5,570,757</u>
Total		

**Lee Lake Water District**  
**Notes to Financial Statements**  
June 30, 2015 and 2014

**10) RELATED PARTY TRANSACTIONS**

The District contracts with Dudek & Associates for management and engineering services. The services of the general manager for the District are hired under this contract. The general manager has an ownership interest in Dudek & Associates. The District owed Dudek & Associates \$17,570 and \$46,003 at June 30, 2015 and 2014, respectively, for services received.

The District incurred the following:

	June 30,	
	2015	2014
General Management	\$ 235,326	\$ 223,421
Engineering and Special Projects	146,752	170,156
Total	\$ 382,078	\$ 393,577

**11) LOAN PAYABLE**

In the 2014-15 Fiscal year, the District entered into a loan agreement with the Elsinore Valley Municipal Water District (EVMWD) to purchase a pipeline owned by EVMWD for \$2,644,000. Under the terms of the agreement, in exchange for the pipeline, EVMWD received the right to use the District's excess capacity water rights from Western Municipal Water District (WMWD). The loan balance is reduced based on EVMWD's purchases of the District's excess water capacity. EVMWD's purchases from year to year are expected to fluctuate and, therefore, the final maturity of the loan is unknown because there is not an established repayment schedule. During the 2014-15 fiscal year, EVMWD purchased \$165,485 of the District's excess capacity rights from WMWD. The remaining loan balance as of June 30, 2015 was \$2,478,515.

**12) JOINT VENTURE**

The District is a member of the California Finance Authority for Delinquent Special Taxes and Assessments (Authority), along with the Cities of Norco and Riverside. The Authority was established to implement and finance a program for the purchase from the member agencies of delinquent special taxes, assessments and property-related fees and charges that are collected on the secured property tax roll. The District has determined to assign to the Authority certain delinquent special taxes (levied under the Mello-Roos Community Facilities Act of 1982) in consideration of the agreement by the Authority to pay the purchase price to the District for such liens and to assume all responsibility and pay all costs in connection with the enforcement and collection of such liens. Separate financial statements for the Authority are currently not available.

**Lee Lake Water District**  
**Notes to Financial Statements**  
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**13) DUE TO AGENCY FUND**

The District, as a pass-through agency, held property tax assessments for the Community Facilities Districts as of June 30, 2014 of \$2,610,636. This amount represents the amounts received by the District prior to June 30, 2014 for the benefit of the Community Facilities District (Agency Fund).

**14) RESTATEMENT OF NET POSITION**

The District implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, in fiscal year 2014-15. As a result, the beginning net position in the Statement of Revenues, Expenses and Changes in Net Position was restated by \$26,860, to reflect the cumulative effect of applying this statement.

The financial statements for the year ended June 30, 2014 were not restated to reflect the effects of GASB Statement No. 68 because it was not deemed practical as described in the GASB 68 pronouncement.

**15) SUBSEQUENT EVENTS**

As of July 1, 2015, subsequent to the end of the fiscal year, the District, through approved resolution of the Board of Directors, changed the name to the Temescal Valley Water District. In addition, in September 2015, subsequent to the end of the fiscal year, the Board of Directors approved a \$3.7 million construction project.

**REQUIRED SUPPLEMENTARY INFORMATION**

**Lee Lake Water District**  
**Required Supplementary Information**  
June 30, 2015 and 2014

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE**  
**OF THE NET PENSION LIABILITY**  
**Last 10 Years\***

		Miscellaneous Risk Pool 2015
Proportion of the Net Pension Liability		0.00048%
Proportionate Share of Net Pension Liability	\$	30,099
Covered - Employee Payroll	\$	542,308
Proportionate Share of the Net Pension Liability as a percentage of Payroll		5.55%
Plan's Fiduciary Net Position	\$	324,502
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability		91.51%

\*Fiscal year 2015 is the first year of implementation, therefore only one year of information is available.

**Notes to the Schedule of the District's Proportionate Share of the Net Pension Liability**

**Benefit Changes:** None

**Changes in Assumptions:** None

**Lee Lake Water District**  
**Required Supplementary Information**  
June 30, 2015 and 2014

**SCHEDULE OF PLAN CONTRIBUTIONS**  
**Last 10 Years\***

		2015
Contractually Required Contributions (actuarially determined)	\$	48,665
Contributions in Relation to the Actuarially Determined Contributions		(48,665)
Contribution Deficiency (Excess)	\$	-
Covered-Employee Payroll	\$	542,308
Contributions as a Percentage of Covered Employee Payroll		8.97%

\*Fiscal year 2015 is the first year of implementation, therefore only one year of information is available.

**Notes to the Schedule of Plan Contributions**

Valuation Date: 6/30/2013

## **SUPPLEMENTARY INFORMATION**

**LEE LAKE WATER DISTRICT**  
**Organizational and Insurance Information**  
June 30, 2015

**Organizational Information**

The Lee Lake Water District (the "District") was formed December 27, 1965 for the purpose of providing irrigation, industrial, and domestic water for the District area. The District was formed and is governed by the California Water Code Section 34000. The area encompasses approximately 6,700 acres or 10-1/2 square miles of land south and east of the City of Corona following the floor of Temescal Canyon to a boundary in the vicinity of Indian Truck Trail. The District's service area is predominantly business, agricultural, unimproved, and includes residential homes as of June 30 of 4,679 for 2015, 4,605 for 2014, and 4,547 for 2013.

In February 1979, the District formed Improvement District No.1 to operate a wastewater treatment facility to serve Tract 11959 which is located at the intersection of Maitre Road and Highway 71. The facility was completed during the year ended June 30, 1984.

In August 1983, the District formed Improvement District No.2 to operate a wastewater treatment facility to serve Tract 13990 in the unincorporated area of Riverside County. A facility was completed and accepted by the District as of October 1990.

January 1992 marked the completion and the subsequent operation of the District's facilities first water reclamation facility. Those facilities include a wastewater reclamation plant sewer, and water mains. The District has expanded the water reclamation facility to 1.57 mg/day and operates six tanks and seven pressure zones to deliver potable and non-potable water.

As of July 1, 2015 Lee Lake Water District has changed its name by resolution to Temescal Valley Water District.

The officers of the District and the date of expiration of terms of office are as follows:

Charles Colladay	President	November	2019
Paul Rodriguez	Vice President/Secretary	November	2017
Grant Destache	Board Member-Engineering Com	November	2017
John Butler	Board Member-Engineering Com	November	2019
Damon De Frates	Board Member-Finance Com	November	2017

**Insurance**

The District maintains a commercial general liability, wrongful acts, employment practices, and employment benefit liability policy with coverage in the amount of \$1,000,000 for each occurrence and aggregate coverage of \$3,000,000, fire damage coverage for any one fire of \$1,000,000, hired and non-owned auto liability coverage of \$1,000,000 per accident and excess liability coverage per occurrence/aggregate limit of insurance of \$5,000,000, and property insurance in the amount of \$22,468,981. The District also has crime coverage in the amount of \$250,000 for employee dishonesty and forgery or alteration, \$250,000 for theft, disappearance or destruction, and \$100,000 for computer fraud. As mandated by the State, the District has covered all employees with a workers' compensation policy through the State Compensation Insurance Fund.



January 15, 2016

Board of Directors  
Lee Lake Water District  
Corona, CA

We have audited the financial statements of the business-type activities and the aggregate remaining fund information of the Lee Lake Water District for the year ended June 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated November 9, 2015. Professional standards also require that we communicate to you the following information related to our audit.

#### Significant Audit Findings

##### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. As described in Note 6 to the financial statements, the District changed accounting policies related to its defined benefit pension plan by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 68, *Accounting and Financial Reporting for Pensions*. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the fair value of investments is based on information provided by financial institutions. We evaluated the key factors and assumptions used to develop the fair value of investments in determining that it is reasonable in relation to the financial statements as a whole.

Management's estimate of capital assets depreciation is based on historical estimates of each capitalized item's useful life. We evaluated key factors and assumptions used to develop the estimated useful lives in determining that they are reasonable in relation to the financial statements as a whole.

Management's estimate of the net pension liability is based on actuarial information provided by the California Public Employee Retirement System's (CalPERS) actuarial office. We evaluated the key factors and assumptions to develop the net pension liability in determining that it is reasonable in relation to the financial statements as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosure of the fair value of investments in Note 2 to the financial statements represents amounts susceptible to market fluctuation.

The disclosure of accumulated depreciation in Note 3 to the financial statements is based on estimated useful lives which could differ from actual useful lives of each capitalized item.

The disclosure of the net pension liability in Note 6 to the financial statements is based on the District's proportionate share of the total pension liability of the pool and includes assumptions for discount rates, which could differ from actual discount rates. Note 6 discloses the differences in the net pension liability assuming different discount rates.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

#### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated January 15, 2016.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the District’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

### *Findings and Recommendations*

In addition to our audit opinion on the financial statements, we issued our “Independent Auditor’s 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*” dated January 15, 2016, in which we identified certain deficiencies in internal controls.

### *New Accounting Pronouncements*

As described in Note 1 to the financial statements, in February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. GASB Statement No. 72 will be required to be implemented for the fiscal year ending June 30, 2016.

Restriction on Use

This information is intended solely for the use of the Board of Directors and management of the District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

*Van Lant & Fankhaed, LLP*



**Independent Auditor's 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***

Board of Directors  
Lee Lake Water District  
Corona, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate remaining fund information of the Lee Lake Water District (the "District"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 15, 2016.

**Internal Control Over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 and therefore, material weaknesses may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2015-1 and 2015-2, that we consider to be significant deficiencies.

## **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*.

## **Lee Lake Water District's Response to Findings**

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The District's responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

*Van Lant & Fankhaed, LLP*

January 15, 2016

**LEE LAKE WATER DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended June 30, 2015**

*2015-1: Purchasing Policy*

Finding:

As part of our risk assessment procedures, we evaluated the District's internal controls over various processes by obtaining an understanding of the policies and procedures of the District. In obtaining an understanding of the District's purchasing function, we noted the District has a purchasing policy that is included in the Accounting Policy and Procedures Manual dated March 7, 2013. This policy provides information and guidelines for approval thresholds and indicates the individuals authorized to make purchases and their purchasing limits. However, it appears the policy could be improved to provide specific guidance regarding competitive bidding procedures for procurement of contractors for projects, other professional services, and also equipment purchases. In a strong internal control environment, an organization should have a detailed policy over purchases indicating the requirement to procure services and equipment through a competitive process, unless certain exceptions apply, such as in emergency situations. A detailed policy should describe the various purchase thresholds for formal and informal bidding. The policy should also indicate scenarios for which competitive bidding is not appropriate, and how this should be documented.

Recommendation:

Therefore, we recommend the District review its policies and procedures regarding the purchasing functions, contained in the Accounting Policies and Procedures Manual, to determine what revisions are necessary. The District should consider establishing more comprehensive and consistent guidelines, which District staff can refer to when procuring equipment, construction contracts, and other professional services. The guidance should provide detailed limits and thresholds for professional services, similar to public contracts, and should ensure competitive bidding and transparency throughout the purchasing process. It should be noted, the District has competitively bid for various professional service contracts; however, as indicated above, we did not find a Board-approved policy that describes in detail which procedures should be followed.

Management's Response:

Management acknowledges and will certainly review and consider your recommendation. Being a small District provides unique challenges for procurement of specialized equipment, materials and services. Existing complex systems require specialized vendors and materialmen. The District continuously reviews our vendor lists to insure we are provided consistent quality at reasonable pricing and seeks new prices for services and materials where we believe a savings can be made or a service can be improved. We continually rotate out services such as emergency repair, scheduled maintenance and auditing. We strive to get competitive bids for all projects and services, but some are so specialized that the "lowest bidder get the job" ends up costing you more in both time and money. All larger projects are reviewed by the General Manger, Staff and ultimately approved by the Board of Directors.

**LEE LAKE WATER DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended June 30, 2015**

*2015-2: Vendor Contracts*

Finding:

As part of our risk assessment procedures, we reviewed disbursements to various vendors for supplies, services, and projects. In addition, we compared invoices selected with various contracts the District has with vendors. While performing these procedures we found several contracts which appear to be outdated. For example, the District has an agreement with a company to provide General Engineering Services. The original agreement was entered into in April of 2004 with no stated termination date. The agreement indicates the consultant will perform as needed professional services throughout the year. However, it is unclear which services would specifically fall under this agreement, considering the District uses this same consultant to provide other engineering services, which seem to fall outside the scope of this general engineering services agreement. In addition, the contract has no stated termination date. Based on our experience, contracts for services should have an expiration date, for example, the contract could be valid for a three-year period. This requires management, from time to time, to evaluate the services being provided to determine if the District is getting the best possible service for the best price.

Recommendation:

Therefore, we recommend the District review its contracts with various vendors and determine which contracts are outdated or expired. The District should then, based on the purchasing policy, determine whether they need to prepare a formal request for proposal for applicable services, or document the reasons why a request for proposal was not completed. The new agreements, depending on the total contract price, should be brought to the Board of Directors for review and approval in a public meeting. In addition, the new agreements should have not-to-exceed prices/rates and contract expiration dates. The District should also establish contract monitoring procedures to track the progress of contracts to ensure the charges for a particular year are within the contract limits and the contract has not expired. As contracts and agreements expire, District management should determine if they want to extend the agreement, based on satisfactory performance and value, or whether they need to go through another request for proposal process. The new agreement should again be brought to the Board of Directors for approval in a public meeting.

Management's Response:

Management acknowledges and will certainly review and consider your recommendation. Again since we are a small District and strive to provide water, recycled water and sewer services at cost effective rate, we utilize consultants, independent contractors and general contractors in the place of full time staff. This provides efficiencies where they are needed and eliminates the overhead a large staff requires. We continually update the "as-needed" budgets on a not to exceed basis each year during the budget meetings. Some contracts and agreement are multi-year and some are as-needed such as emergency contract work. Each year we request rate sheets for the contractors that provide as-needed services. We will review our consultant and independent contractor contracts to insure they are up to date.