



Trabuco Canyon Water District

Annual Financial Report

For the Fiscal Years Ended June 30, 2014 and 2013



**Trabuco Canyon Water District
Board of Directors as of June 30, 2014**

<u>Name</u>	<u>Title</u>	<u>Elected/ Appointed</u>	<u>Current Term</u>
Edward Mandich	President	Elected	12/10-12/14
James Haselton	Vice President	Elected	12/12-12/16
Glenn Acosta	Director	Elected	12/10-12/14
Stephen Dopudja	Director	Elected	12/12-12/16
Michael Safranski	Director	Elected	12/10-12/14

**Trabuco Canyon Water District
Hector Ruiz, General Manager
32003 Dove Canyon Drive
Trabuco Canyon, California 92679
(949) 858-0277 – www.tcwd.ca.gov**

Trabuco Canyon Water District

Annual Financial Report

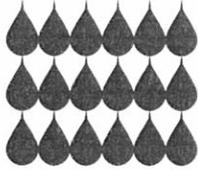
For the Fiscal Years Ended June 30, 2014 and 2013

**Trabuco Canyon Water District
Annual Financial Report
For the Fiscal Years Ended June 30, 2014 and 2013**

Table of Contents

	<u>Page No.</u>
Table of Contents	i
Financial Section	
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-7
Basic Financial Statements:	
Statements of Net Position	8
Statements of Revenues, Expenses and Changes in Net Position	9
Statements of Cash Flows	10-11
Notes to the Basic Financial Statements	12-29
Required Supplementary Information Section	
Schedules of Funding Status	30
Report on Internal Controls and Compliance	
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 <i>Government Auditing Standards</i>	31-32

Financial Section



Charles Z. Fedak, CPA, MBA
Paul J. Kaymark, CPA
Christopher J. Brown, CPA

Charles Z. Fedak & Company

Certified Public Accountants
An Accountancy Corporation

6081 Orange Avenue
Cypress, California 90630
(714) 527-1818
(562) 598-6565
FAX (714) 527-9154
EMAIL czfco@czfcpa.com
WEB www.czfcpa.com

Independent Auditor's Report

Board of Directors
Trabuco Canyon Water District
Trabuco Canyon, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Trabuco Canyon Water District (District) as of and for the years ended June 30, 2014 and 2013, 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 audits. We conducted our audits 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 audits 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of June 30, 2014 and 2013, and the respective changes in financial position, and, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report, continued

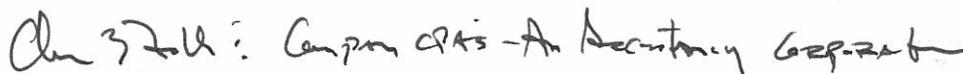
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 and the required supplementary information on page 30 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2014, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance. This report can be found on pages 31 and 32.



Charles Z. Fedak and Company, CPAs – An Accountancy Corporation

Cypress, California
September 22, 2014

Trabuco Canyon Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2014 and 2013

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Trabuco Canyon Water District (District) provides an introduction to the financial statements of the District for the fiscal years ended June 30, 2014 and 2013. The two year presentation is provided for comparative purposes. We encourage readers to consider the information presented here in conjunction with the basic financial statements and related notes, which follow this section.

Financial Highlights

- The District's net position decreased 1.5%, or \$841,118 to \$56,845,558, in fiscal year 2014, primarily due to a decrease in property tax and special assessment revenue. In 2013, the District's net position increased 2.4%, or \$1,359,956 to \$57,686,676, as a result of operations.
- In 2014, the District's operating revenues increased 7.5%, or \$433,131, primarily due to a \$307,963 increase in water consumption sales. In 2013, the District's operating revenues increased 9.5%, or \$496,801, primarily due to a \$497,655 increase in water consumption sales.
- In 2014, the District's operating expenses increased 2.9%, or \$211,858, primarily due to an increase in source of supply expense of \$331,763. In 2013, the District's operating expenses increased 5.8%, or \$393,799, primarily due to an increase in source of supply expense of \$413,728.

Required Financial Statements

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

The 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 a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the 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 if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness. The final required financial statement is the Statement of Cash Flows, which provides 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, non-capital financing, and capital and related financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of the District

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the District in a way that helps answer this question.

These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting method used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

Trabuco Canyon Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2014 and 2013

Financial Analysis of the District, continued

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 12 through 29.

Statement of Net Position

Condensed Statements of Net Position

	<u>2014</u>	<u>2013</u>	<u>Change</u>
Assets:			
Current assets	\$ 19,696,383	23,703,485	(4,007,102)
Non-current assets	-	74,751	(74,751)
Capital assets, net	<u>47,902,424</u>	<u>49,687,524</u>	<u>(1,785,100)</u>
Total assets	<u><u>67,598,807</u></u>	<u><u>73,465,760</u></u>	<u><u>(5,866,953)</u></u>
Liabilities:			
Current liabilities	2,807,419	5,034,139	(2,226,720)
Non-current liabilities	<u>7,945,830</u>	<u>10,744,945</u>	<u>(2,799,115)</u>
Total liabilities	<u>10,753,249</u>	<u>15,779,084</u>	<u>(5,025,835)</u>
Net Position:			
Net investment in capital assets	38,519,396	36,342,833	2,176,563
Restricted	11,053,442	10,585,082	468,360
Unrestricted	<u>7,272,720</u>	<u>10,758,761</u>	<u>(3,486,041)</u>
Total net position	<u>56,845,558</u>	<u>57,686,676</u>	<u>(841,118)</u>
Total liabilities and net position	<u>\$ <u>67,598,807</u></u>	<u>73,465,760</u>	<u>(5,866,953)</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets of the District exceeded liabilities by \$56,845,558 and \$57,686,676, as of June 30, 2014 and 2013, respectively.

By far the largest portion of the District's net position (67% as of June 30, 2014 and 63% as of June 30, 2013) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are not available for future spending.

At the end of fiscal years 2014 and 2013, the District showed a balance in its restricted net position of \$11,053,442 and \$10,585,082, respectively, which is restricted for future capital projects and debt service repayments.

At the end of fiscal years 2014 and 2013, the District showed a positive balance in its unrestricted net position of \$7,272,720 and \$10,758,761, respectively, which may be utilized in future years. See note 10 for further discussion.

Trabuco Canyon Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2014 and 2013

Statement of Revenues, Expenses and Changes in Net Position

Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>2014</u>	<u>2013</u>	<u>Change</u>
Revenue:			
Operating revenue	\$ 6,180,929	5,747,798	433,131
Non-operating revenue	<u>2,902,729</u>	<u>5,676,599</u>	<u>(2,773,870)</u>
Total revenue	<u>9,083,658</u>	<u>11,424,397</u>	<u>(2,340,739)</u>
Expense:			
Operating expense	7,440,180	7,228,322	211,858
Depreciation	2,751,480	2,734,244	17,236
Non-operating expense	<u>637,117</u>	<u>1,014,429</u>	<u>(377,312)</u>
Total expense	<u>10,828,777</u>	<u>10,976,995</u>	<u>(148,218)</u>
Net income(loss) before capital contributions	(1,745,119)	447,402	(2,192,521)
Capital contributions:	<u>904,001</u>	<u>912,554</u>	<u>(8,553)</u>
Change in net position	(841,118)	1,359,956	(2,201,074)
Net position, beginning of year	<u>57,686,676</u>	<u>56,326,720</u>	<u>1,359,956</u>
Net position, end of year	<u>\$ 56,845,558</u>	<u>57,686,676</u>	<u>(841,118)</u>

The statement of revenues, expenses and changes of net position shows how the District's net position changed during the fiscal years. In the case of the District, the change in net position decreased by \$841,118 and increased \$1,359,956 for the fiscal years ended June 30, 2014 and 2013, respectively. A closer examination of the sources of changes in net position reveals that:

In 2014, the District's operating revenues increased 7.5%, or \$433,131, primarily due to a \$307,693 increase in water consumption sales. In 2013, the District's operating revenues increased 9.5%, or \$496,801, primarily due to a \$497,655 increase in water consumption sales.

In 2014, the District's operating expenses increased 2.9%, or \$211,858, primarily due to an increase in source of supply expense of \$331,763. In 2013, the District's operating expenses increased 5.8%, or \$393,799, primarily due to an increase in source of supply expense of \$413,728.

Trabuco Canyon Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2014 and 2013

Capital Asset Administration

Changes in capital asset amounts for 2014 were as follows:

	<u>Balance 2013</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2014</u>
Capital assets:				
Non-depreciable assets	\$ 3,166,190	1,004,871	(144,435)	4,026,626
Depreciable assets	98,560,311	105,944	-	98,666,255
Accumulated depreciation	<u>(52,038,977)</u>	<u>(2,751,480)</u>	<u>-</u>	<u>(54,790,457)</u>
Total capital assets, net	<u>\$ 49,687,524</u>	<u>(1,640,665)</u>	<u>(144,435)</u>	<u>47,902,424</u>

Changes in capital asset amounts for 2013 were as follows:

	<u>Balance 2012</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2013</u>
Capital assets:				
Non-depreciable assets	\$ 3,474,841	522,294	(830,945)	3,166,190
Depreciable assets	97,467,775	1,092,536	-	98,560,311
Accumulated depreciation	<u>(49,304,733)</u>	<u>(2,734,244)</u>	<u>-</u>	<u>(52,038,977)</u>
Total capital assets, net	<u>\$ 51,637,883</u>	<u>(1,119,414)</u>	<u>(830,945)</u>	<u>49,687,524</u>

At the end of fiscal year 2014 and 2013, the District's investment in capital assets amounted to \$47,902,424 and \$46,687,524 (net of accumulated depreciation), respectively. This investment in capital assets includes land, transmission and distribution systems, buildings, equipment, vehicles and construction-in-process, etc. See note 6 for further information.

Debt Administration

Changes in long-term debt amounts for 2014 were as follows:

	<u>Balance 2013</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance 2014</u>
Long-term debt:				
Bonds payable, net	\$ 9,884,328	-	(3,885,983)	5,998,345
Loans payable	<u>3,460,363</u>	<u>-</u>	<u>(75,680)</u>	<u>3,384,683</u>
Total long-term debt	<u>\$ 13,344,691</u>	<u>-</u>	<u>(3,961,663)</u>	<u>9,383,028</u>

Changes in long-term debt amounts for 2013 were as follows:

	<u>Balance 2012</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance 2013</u>
Long-term debt:				
Bonds payable, net	\$ 15,330,311	-	(5,445,983)	9,884,328
Loans payable	<u>3,609,170</u>	<u>-</u>	<u>(148,807)</u>	<u>3,460,363</u>
Total long-term debt	<u>\$ 19,094,170</u>	<u>-</u>	<u>(5,638,807)</u>	<u>13,455,363</u>

See note 9 for further information.

Conditions Affecting Current Financial Position

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

Trabuco Canyon Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2014 and 2013

Requests for Information

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's Treasurer at 32003 Dove Canyon Drive, Trabuco Canyon, California 92679.

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Basic Financial Statements

Trabuco Canyon Water District
Statements of Net Position
June 30, 2014 and 2013

<i>Assets</i>	2014	2013
Current assets:		
Cash and investments (note 2)	\$ 7,167,143	11,478,918
Restricted – cash and investments (note 2 and 3)	11,254,011	10,816,523
Accrued interest receivable	3,936	9,483
Restricted – accrued interest receivable (note 3)	1,472	1,299
Accounts receivable – water sales and sewer services, net (note 4)	918,538	936,326
Property taxes receivable	13,718	22,221
Special assessments receivable	20,340	49,620
Accounts receivable – other	139,664	142,987
Note receivable – AMP – current portion (note 5)	-	21,391
Prepaid expenses and other deposits	177,561	224,717
Total current assets	19,696,383	23,703,485
Non-current assets:		
Note receivable – AMP (note 5)	-	74,751
Capital assets – not being depreciated (note 6)	4,026,626	3,166,190
Capital assets, net – being depreciated (note 6)	43,875,798	46,521,334
Total non-current assets	47,902,424	49,762,275
Total assets	\$ 67,598,807	73,465,760
<i>Liabilities and Net Position</i>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 512,483	450,786
Accrued wages and related payables	198,629	87,634
Customer deposits and unearned revenue	233,243	213,428
Accrued interest payable	202,041	232,740
Long-term liabilities – due within one year:		
Compensated absences (note 7)	44,479	43,871
Bonds payable (note 9)	1,540,000	3,930,000
Loans payable (note 9)	76,544	75,680
Total current liabilities	2,807,419	5,034,139
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Compensated absences (note 7)	133,436	131,612
Post-employment benefits payable (note 8)	45,910	1,274,322
Bonds payable, net (note 9)	4,458,345	5,954,328
Loans payable (note 9)	3,308,139	3,384,683
Total non-current liabilities	7,945,830	10,744,945
Total liabilities	10,753,249	15,779,084
Net position: (note 10)		
Net investment in capital assets	38,519,396	36,342,833
Restricted – capital projects	3,486,525	3,213,977
Restricted – debt service	7,566,917	7,371,105
Unrestricted – operational funds	7,272,720	10,758,761
Total net position	56,845,558	57,686,676
Total liabilities and net position	\$ 67,598,807	73,465,760

See accompanying notes to the basic financial statements

Trabuco Canyon Water District
Statements of Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended June 30, 2014 and 2013

	2014	2013
Operating revenues:		
Water consumption sales	\$ 3,452,672	3,144,709
Water service charges	615,761	612,431
Sewer service charges	1,136,613	1,153,676
Reclaimed water sales	732,558	678,462
Recycled water sales	213,945	112,512
Other charges for services	29,380	46,008
Total operating revenues	6,180,929	5,747,798
Operating expenses:		
Source of supply	2,277,747	1,945,984
Pumping	508,989	402,334
Water treatment	159,077	238,233
Transmission and distribution	134,717	168,133
Sewer operations	824,410	803,821
General and administrative – salaries and benefits	2,859,054	3,058,706
General and administrative – other	676,186	611,111
Total operating expenses	7,440,180	7,228,322
Operating loss before depreciation expense	(1,259,251)	(1,480,524)
Depreciation expense	(2,751,480)	(2,734,244)
Operating loss	(4,010,731)	(4,214,768)
Non-operating revenue(expense):		
Property taxes	1,294,601	1,643,817
Special assessments for debt service	1,491,391	3,875,069
Investment earnings	27,050	35,321
Rental revenue	24,788	21,559
Interest expense	(501,724)	(770,062)
Amortization of bond discount	(44,018)	(44,018)
Debt administration charges	(71,858)	(172,730)
Property tax administration charge	(19,517)	(27,619)
Other non-operating revenue	64,899	100,833
Total non-operating, net	2,265,612	4,662,170
Net income(loss) before capital contributions	(1,745,119)	447,402
Capital contributions:		
Water reliability and emergency storage fees	904,001	912,554
Total capital contributions	904,001	912,554
Change in net position	(841,118)	1,359,956
Net position, beginning of year	57,686,676	56,326,720
Net position, end of year	\$ 56,845,558	\$ 57,686,676

See accompanying notes to the basic financial statements

Trabuco Canyon Water District
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Cash receipts from customers for water sales and services	\$ 6,291,727	5,665,354
Cash paid to employees for salaries and wages	(1,753,407)	(1,729,861)
Cash paid to vendors and suppliers for materials and services	(6,764,465)	(5,705,626)
Net cash used in operating activities	(2,226,145)	(1,770,133)
Cash flows from non-capital financing activities:		
Property taxes	1,303,104	1,735,333
Net cash provided by non-capital financing activities	1,303,104	1,735,333
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(966,380)	(783,885)
Capital contributions	904,001	912,554
Proceeds from special assessments for debt service	1,520,671	3,935,010
Principal paid	(3,961,663)	(5,638,807)
Interest paid	(576,441)	(863,105)
Net cash used in capital and related financing activities	(3,079,812)	(2,438,233)
Cash flows from investing activities:		
Principal received on note receivable – AMP	96,142	19,829
Investment earnings	32,424	43,442
Net cash provided by investing activities	128,566	63,271
Net decrease in cash and cash equivalents	(3,874,287)	(2,409,762)
Cash and cash equivalents, beginning of year	22,295,441	24,705,203
Cash and cash equivalents, end of year	\$ 18,421,154	22,295,441
Reconciliation of cash and cash equivalents to statement of financial position:		
Cash and cash equivalents	\$ 7,167,143	11,478,918
Restricted assets – cash and cash equivalents	11,254,011	10,816,523
Total cash and cash equivalents	\$ 18,421,154	22,295,441

Continued on next page

See accompanying notes to the basic financial statements

**Trabuco Canyon Water District
Statements of Cash Flows, continued
For the Fiscal Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ <u>(4,010,731)</u>	<u>(4,214,768)</u>
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	2,751,480	2,734,244
Rental revenue	24,788	21,559
Debt administration charges	(71,858)	(39,564)
Property tax administration charge	(19,517)	(27,619)
Other non-operating income, net	64,899	100,833
Changes in assets and liabilities:		
(Increase)decrease in assets:		
Accounts receivable – water sales and sewer services, net	17,788	(235,088)
Accounts receivable – other	3,323	30,252
Prepaid expenses and other deposits	47,156	(3,005)
Increase(decrease) in liabilities:		
Accounts payable and accrued expenses	61,697	(385,517)
Accrued wages and related payables	110,995	(15,255)
Customer deposits and unearned revenue	19,815	(5,536)
Compensated absences	2,432	(14,880)
Post-employment benefits payable	<u>(1,228,412)</u>	<u>284,211</u>
Total adjustments	<u>1,784,586</u>	<u>2,444,635</u>
Net cash used in operating activities	\$ <u><u>(2,226,145)</u></u>	<u><u>(1,770,133)</u></u>

See accompanying notes to the basic financial statements

Trabuco Canyon Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Trabuco Canyon Water District (District) was organized in January 1962, under provisions of the County Water District Act (Sections 30000 et. seq. of the Water Code of the State of California). The District is governed by a Board of Directors made up of five members elected by the qualified voters in the District. The purpose of the District is to finance, construct, operate and maintain a water system and wastewater system to serve properties within the District's boundaries. The Trabuco Canyon Water District includes the accounts of the District, Trabuco Canyon Improvement Corporation and Trabuco Canyon Public Financing Authority as blended component units.

The Trabuco Canyon Improvement Corporation (Corporation) was organized on September 1, 1988, pursuant to the Nonprofit Benefit Corporation Law of the State of California (Title 1, Division 2, Part 2 of the California Corporations Code), solely for the purpose of providing financial assistance to the District.

The Trabuco Canyon Public Financing Authority (Authority) was organized on August 8, 1993, pursuant to the Government Code of the State of California (Title 1, Division 7 Section 6500 of the California Government Code), as a Joint Powers Agency, solely for the purpose of providing financial assistance to the District. Separate

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

Complete financial statements for the Corporation and Authority are available at the District's office or upon request of the District's Treasurer at 32003 Dove Canyon Drive, Trabuco Canyon, California 92679.

B. Basis of Accounting and Measurement Focus

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs of providing water to its service area on a continuing basis be financed or recovered primarily through user charges (water sales), capital grants and similar funding. Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

Operating revenues and expenses, such as water sales and water purchases, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Management, administration, and depreciation expenses are also considered operating expenses. Other revenues and expenses, not included in the above categories, are reported as non-operating revenues and expenses.

C. Financial Reporting

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

Trabuco Canyon Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Liabilities and Net Position

1. Use of Estimates

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

2. Cash and Cash Equivalents

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

3. Investments

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

4. Accounts Receivable and Allowance for Uncollectible Accounts

The District extends credit to customers in the normal course of operations. When management deems customer accounts uncollectible, the District uses the allowance method for the reservation and write-off of those accounts.

5. Property Taxes and Assessments

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

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

Lien date	March 1
Levy date	July 1
Due dates	November 1 and March 1
Collection dates	December 10 and April 10

Trabuco Canyon Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Liabilities and Net Position, continued

6. Prepaid Expenses

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

7. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at \$5,000. Donated assets are recorded at estimated fair market value at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

- Water transmission and distribution system – 5 to 40 years
- Wastewater system – 4 to 40 years
- Structures and improvements – 10 to 30 years
- Machinery equipment – 3 to 15 years

8. Compensated Absences

The District's policy is to permit employees to accumulate earned vacation up to a total of 240 hours with amounts exceeding the limit being paid out as part of the employee's regular compensation. Upon termination of employment, employees are paid all unused vacation and forfeit any unused sick time.

9. Net Position

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

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

10. Water Sales and Sewer Services

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

11. Capital Contributions

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

Trabuco Canyon Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Liabilities and Net Position, continued

12. Budgetary Policies

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

(2) Cash and Investments

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

		2014	2013
Cash and cash equivalents	\$	7,167,143	11,478,918
Restricted – cash and cash equivalents		11,254,011	10,816,523
Total cash and investments	\$	18,421,154	22,295,441

		2014	2013
Cash on hand	\$	500	500
Deposits with financial institutions		1,766,837	1,245,543
Deposits in money-market funds		7,579,250	7,552,998
Investments		9,074,567	13,496,400
Total cash and investments	\$	18,421,154	22,295,441

As of June 30, the District's authorized deposits had the following maturities:

		2014	2013
Deposits in Local Agency Investment Fund		232 days	278 days

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

The District is legally empowered by statute and ordinance to invest in money-market funds held by the District's bond trustee and to invest in the California State Investment Pool – Local Agency Investment Fund. The District's investment policy identifies other investment types that are authorized for the District to invest in under the California Government Code.

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 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.

Trabuco Canyon Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

(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 does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits:

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. Of the bank balances, up to \$250,000 held at each institution were federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Code and the District's investment policy contain legal and policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Concentration of Credit Risk

The District's investment policy contains no limitations on the amounts that can be invested in any one issuer as beyond that stipulated by the California Government Code. There were no investments in any one issuer (other than for external investment pools) that represent 5% or more of total District's investments at June 30, 2014 and 2013, respectively.

Trabuco Canyon Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

(3) Restricted Assets

Restricted assets consisted of the following as of June 30:

	<u>2014</u>	<u>2013</u>
Restricted – cash and investments	\$ 11,254,011	10,816,523
Restricted – accrued interest receivable	1,472	1,299
Total restricted assets	<u>\$ 11,255,483</u>	<u>10,817,822</u>

Restricted assets were provided by, and are to be used for, the following at June 30:

<u>Funding source</u>	<u>Use</u>	<u>2014</u>	<u>2013</u>
Refunding revenue bond proceeds	Reserve fund	\$ 7,579,250	7,552,998
Water reliability and emergency storage fees	Capital purchases	2,299,787	2,027,413
Development impact fees	Capital purchases	1,116,276	1,116,276
Special assessment	Capital at RD5	70,462	70,288
General revenues	Debt service	189,708	50,847
Total restricted assets sources and uses		<u>\$ 11,255,483</u>	<u>10,817,822</u>

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as necessary.

(4) Accounts Receivable – Water Sales and Sewer Services, net

Accounts receivable – water sales and sewer services, net consisted of the following as of June 30:

	<u>2014</u>	<u>2013</u>
Accounts receivable – water and sewer	\$ 921,660	937,573
Allowance for doubtful accounts	(3,122)	(1,247)
Total accounts receivable, net	<u>\$ 918,538</u>	<u>936,326</u>

(5) Note Receivable – AMP (Allen – McColloch Pipeline)

On July 1, 1994, Trabuco Canyon Water District signed an agreement along with the Municipal Water District of Orange County (MWDOC) and several other participants for the sale of capacity rights in the Allen – McColloch Pipeline (AMP) to the Metropolitan Water District of Southern California (Metropolitan). An initial cash payment was received with a note receivable of \$1,151,186 at 5.8% interest per annum with the first payment commencing July 3, 1995, and semiannual installments due January 1st and July 1st of each year through July 3, 2016.

Metropolitan acknowledged that the purchase price is substantially less than the value of the AMP based on replacement costs less depreciation, but MWDOC and the seller participants accepted the price because Metropolitan will expand the capacity of the AMP at their expense and will provide new delivery points along the AMP which will benefit the sellers. The note was fully received in the fiscal year 2014.

Note receivable – AMP consisted of the following as of June 30:

	<u>2014</u>	<u>2013</u>
Note receivable – AMP – current portion	\$ -	21,391
Note receivable – AMP – long-term portion	-	74,751
Total note receivable – AMP	<u>\$ -</u>	<u>96,142</u>

Trabuco Canyon Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

(6) Capital Assets

Construction-In-Process

The District is involved in various construction projects throughout the year. Once completed, projects are capitalized and depreciated over the life of the asset. The balance of construction-in-process was \$1,687,513 and \$827,076 at June 30, 2014 and 2013, respectively.

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

	<u>2014</u>	<u>2013</u>
Baker regional water treatment plant	\$ 953,328	377,704
Dimension water treatment generator	40,621	40,621
Shadow rock detention basin	255,952	84,504
Alternate raw water transmission lines	354,147	300,493
Golf club surge tank control system	48,809	-
Various other minor projects	34,656	23,754
Total construction-in-process	\$ 1,687,513	827,076

Major capital assets additions during the years include upgrades and extensions of the District's water transmission and distribution systems and wastewater systems in the following schedules:

Changes in capital assets for the year ended June 30, 2014, were as follows:

	<u>Balance 2013</u>	<u>Additions/</u>	<u>Deletions/ Transfers</u>	<u>Balance 2014</u>
Non-depreciable assets:				
Land and land rights	\$ 2,339,113	-	-	2,339,113
Construction-in-process	827,077	1,004,871	(144,435)	1,687,513
Total non-depreciable assets	3,166,190	1,004,871	(144,435)	4,026,626
Depreciable assets:				
Water transmission and distribution system	46,299,998	-	-	46,299,998
Wastewater system	50,228,482	93,775	-	50,322,257
Structures and improvements	1,476,347	-	-	1,476,347
Machinery and equipment	555,484	12,169	-	567,653
Total depreciable assets	98,560,311	105,944	-	98,666,255
Accumulated depreciation:				
Water transmission and distribution system	(23,796,338)	(1,239,279)	-	(25,035,617)
Wastewater system	(27,036,646)	(1,422,138)	-	(28,458,784)
Structures and improvements	(856,577)	(43,668)	-	(900,245)
Machinery and equipment	(349,416)	(46,395)	-	(395,811)
Total accumulated depreciation	(52,038,977)	(2,751,480)	-	(54,790,457)
Total depreciable assets, net	46,521,334	(2,645,536)	-	43,875,798
Total capital assets, net	\$ 49,687,524	(1,640,665)	(144,435)	47,902,424

**Trabuco Canyon Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013**

(6) Capital Assets, continued

Changes in capital assets for the year ended June 30, 2013, were as follows:

	<u>Balance 2012</u>	<u>Additions/</u>	<u>Deletions/ Transfers</u>	<u>Balance 2013</u>
Non-depreciable assets:				
Land and land rights	\$ 2,339,113	-	-	2,339,113
Construction-in-process	1,135,728	522,294	(830,945)	827,077
Total non-depreciable assets	<u>3,474,841</u>	<u>522,294</u>	<u>(830,945)</u>	<u>3,166,190</u>
Depreciable assets:				
Water transmission and distribution system	45,505,370	794,628	-	46,299,998
Wastewater system	50,003,658	224,824	-	50,228,482
Structures and improvements	1,476,347	-	-	1,476,347
Machinery and equipment	482,400	73,084	-	555,484
Total depreciable assets	<u>97,467,775</u>	<u>1,092,536</u>	<u>-</u>	<u>98,560,311</u>
Accumulated depreciation:				
Water transmission and distribution system	(22,570,139)	(1,226,199)	-	(23,796,338)
Wastewater system	(25,623,564)	(1,413,082)	-	(27,036,646)
Structures and improvements	(812,909)	(43,668)	-	(856,577)
Machinery and equipment	(298,121)	(51,295)	-	(349,416)
Total accumulated depreciation	<u>(49,304,733)</u>	<u>(2,734,244)</u>	<u>-</u>	<u>(52,038,977)</u>
Total depreciable assets, net	<u>48,163,042</u>	<u>(1,641,708)</u>	<u>-</u>	<u>46,521,334</u>
Total capital assets, net	<u>\$ 51,637,883</u>	<u>(1,119,414)</u>	<u>(830,945)</u>	<u>49,687,524</u>

(7) Compensated Absences

Changes to compensated absences for 2014, were as follows:

	<u>Balance 2013</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance 2014</u>	<u>Current Portion</u>	<u>Long-term Portion</u>
\$	<u>175,483</u>	<u>180,947</u>	<u>(178,515)</u>	<u>177,915</u>	<u>44,479</u>	<u>133,436</u>

Changes to compensated absences for 2013, were as follows:

	<u>Balance 2012</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance 2013</u>	<u>Current Portion</u>	<u>Long-term Portion</u>
\$	<u>190,363</u>	<u>166,177</u>	<u>(181,057)</u>	<u>175,483</u>	<u>43,871</u>	<u>131,612</u>

(8) Post-Employment Benefits Payable

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

**Trabuco Canyon Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013**

(8) Post-Employment Benefits Payable, continued

Plan Description – Eligibility

The District pays a portion of the cost of health insurance for retirees (including prescription drug benefits) under any group plan offered by the CalPERS Health Program, subject to certain restrictions as determined by the District.

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

	2014	2013	2012
Active plan members	18	19	24
Retirees and beneficiaries receiving benefits	4	4	3
Separated plan members entitled to but not yet receiving benefits	-	-	-
Total plan membership	22	23	27

Plan Description – Benefits

The District offers post employment medical benefits to retired employees who satisfy the eligibility rules. Spouses and surviving spouses are also eligible to receive benefits. Retirees may enroll in any medical plan available through the District’s CalPERS Health Program, a cost-sharing multiple-employer medical coverage plan. The contribution requirements of eligible retired employees and the District are established and may be amended by the Board of Directors.

Funding Policy

The District is required to contribute the *Annual Required Contribution (ARC) of the Employer*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The District will pay a fixed contribution towards the cost of the post-employment benefit plan for those employees who meet the required service years for retirement from the District. The District intends to fund the plan in full each year, although funding may vary depending upon the District cash flow needs.

Annual OPEB Cost and Net OPEB Obligation

For the year ended June 30, 2014, the District’s ARC cost was \$189,076. The District’s net OPEB payable obligation amounted to \$45,910 for the year ended June 30, 2014. The District contributed \$40,355 in age adjusted contributions for current retiree OPEB premiums, for the year ended June 30, 2014. The current ARC rate is 19.82% of the District’s annual covered payroll at June 30, 2013.

Trabuco Canyon Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

(8) Post-Employment Benefits Payable, continued

Annual OPEB Cost and Net OPEB Obligation, continued

The balance at June 30, consists of the following:	<u>2014</u>	<u>2013</u>	<u>2012</u>
Annual OPEB expense:			
Annual required contribution (ARC)	\$ 208,753	276,602	290,291
Interest on net OPEB obligation	63,716	49,507	37,419
Interest earnings on irrevocable trust balance	(83,920)	-	-
Adjustment to annual required contribution	<u>527</u>	<u>-</u>	<u>(51,108)</u>
Total annual OPEB expense	189,076	326,109	276,602
Change in net OPEB payable obligation:			
Contributions made to irrevocable trust	(1,377,133)	-	-
Age adjusted contributions made	<u>(40,355)</u>	<u>(41,898)</u>	<u>(34,874)</u>
Total change in net OPEB payable obligation	(1,228,412)	284,211	241,728
OPEB payable – beginning of year	<u>1,274,322</u>	<u>990,111</u>	<u>748,383</u>
OPEB payable – end of year	<u>\$ 45,910</u>	<u>1,274,322</u>	<u>990,111</u>

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal year 2014 and the three preceding years were as follows:

<u>Three-Year History of Net OPEB Obligation</u>				
<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Annual Contributions</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation Payable</u>
2014	\$ 189,076	1,417,488	749.69%	\$ 45,910
2013	326,109	41,898	12.85%	1,274,322
2012	276,602	34,874	12.61%	990,111

The most recent valuation (dated November 6, 2013) includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of \$1,331,868. The covered payroll (annual payroll of active employees covered by the plan) for the year ended June 30, 2013, was estimated at \$1,603,000. The ratio of the unfunded actuarial accrued liability to annual covered payroll is 83.09%.

Actuarial Methods and Assumptions

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

Trabuco Canyon Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

(8) Post-Employment Benefits Payable, continued

Actuarial Methods and Assumptions, continued

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

Valuation date	June 30, 2013
Actuarial cost method	Entry age normal cost method, open
Amortization method	30 Years amortization level dollar
Remaining amortization period	25 Years as of the valuation date
Asset valuation method	30 Years smoothed market
Actuarial assumptions:	
Investment rate of return	5.00%
Projected salary increase	3.00%
Inflation - discount rate	3.00%
Healthcare cost trend rate	1.00%

See page 30 for the Schedule of Funding Status for the post-employment benefit plan, which presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time.

(9) Long-Term Debt

1994 Series A – Refunding Revenue Bonds

Changes in long-term debt amounts for the year were as follows:

	<u>Balance 2013</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 2014</u>	<u>Current Portion</u>
Long-term debt:					
Bonds payable:					
1994 Series A Refunding revenue bonds	\$ 4,430,000	-	(3,300,000)	1,130,000	545,000
1994 Series B Refunding revenue bonds	350,000	-	(15,000)	335,000	335,000
1994 Series C Refunding revenue bonds	5,215,000	-	(615,000)	4,600,000	660,000
Discount on revenue bonds	(110,672)	-	44,017	(66,655)	-
Total bonds payable	<u>9,884,328</u>	<u>-</u>	<u>(3,885,983)</u>	<u>5,998,345</u>	<u>1,540,000</u>
Loans payable:					
2011 State revolving fund loan	3,460,363	-	(75,680)	3,384,683	76,544
Total loans payable	<u>3,460,363</u>	<u>-</u>	<u>(75,680)</u>	<u>3,384,683</u>	<u>76,544</u>
Total long-term debt	<u>\$ 13,344,691</u>	<u>-</u>	<u>(3,961,663)</u>	<u>9,383,028</u>	<u>1,616,544</u>

Changes in long-term debt amounts for the year were as follows:

	<u>Balance 2012</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 2013</u>	<u>Current Portion</u>
Long-term debt:					
Bonds payable:					
1994 Series A Refunding revenue bonds	\$ 9,000,000	-	(4,570,000)	4,430,000	3,300,000
1994 Series B Refunding revenue bonds	690,000	-	(340,000)	350,000	15,000
1994 Series C Refunding revenue bonds	5,795,000	-	(580,000)	5,215,000	615,000
Discount on revenue bonds	(154,689)	-	44,017	(110,672)	-
Total bonds payable	<u>15,330,311</u>	<u>-</u>	<u>(5,445,983)</u>	<u>9,884,328</u>	<u>3,930,000</u>
Loans payable:					
2011 State revolving fund loan	3,609,170	-	(148,807)	3,460,363	75,680
Total loans payable	<u>3,609,170</u>	<u>-</u>	<u>(148,807)</u>	<u>3,460,363</u>	<u>75,680</u>
Total long-term debt	<u>\$ 18,939,481</u>	<u>-</u>	<u>(5,594,790)</u>	<u>13,344,691</u>	<u>4,005,680</u>

1994 Series A & B – Special Tax Refunding Bonds

On April 1, 1994, the District issued \$61,960,000 of special tax refunding bonds to refund the original bonds issued in 1986 – 1988 for Community Facility Districts No. 2, 5, 7 and 8 totaling \$53,600,000 used to finance capital improvements within the District's service area.

Trabuco Canyon Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

(9) Long-Term Debt, continued

1994 Series A – Refunding Revenue Bonds

The bonds are scheduled to mature in fiscal year 2016. Interest installments are payable each fiscal year at a rates of 6.0% to 6.1% on October 1st and April 1st, while principal payments are due on October 1st. The District collects an annual special assessment from the customers of the District in the service area where these capital improvements were constructed and are utilized. The debt service reserve fund for this issuance is \$5,119,000. Annual debt service requirements on the loan are as follows:

1994 Series A – Refunding Revenue Bonds, continued

<u>Year</u>		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$	545,000	52,308	597,308
2016		585,000	17,842	602,842
Total		1,130,000	70,150	1,200,150
Current		(545,000)		
Long-term	\$	585,000		

1994 Series B – Refunding Revenue Bonds

The bonds are scheduled to mature in fiscal year 2015. Interest installments are payable each fiscal year at a rates of 6.9% to 7.0% on October 1st and April 1st, while principal payments are due on October 1st. The District collects an annual special assessment from the customers of the District in the service area where these capital improvements were constructed and are utilized. The debt service reserve fund for this issuance is \$714,465. Annual debt service requirements on the loan are as follows:

<u>Year</u>		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$	335,000	11,725	346,725
Total		335,000	11,725	346,725
Current		(335,000)		
Long-term	\$	-		

1994 Series C – Refunding Revenue Bonds

On April 15, 1994, the District issued \$12,080,000 of water and wastewater refunding revenue bonds to refund a prior outstanding issuance. The bonds are scheduled to mature in fiscal year 2020. Interest installments are payable each fiscal year at rates of 6.0% to 6.1% on July 1st and January 1st, while principal payments are due on July 1st. The debt service reserve fund for this issuance is \$1,701,933. Annual debt service requirements on the loan are as follows:

<u>Year</u>		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$	660,000	260,470	920,470
2016		695,000	218,543	913,543
2017		745,000	175,222	920,222
2018-2020		2,500,000	235,154	2,735,154
Total		4,600,000	889,389	5,489,389
Current		(660,000)		
Long-term	\$	3,940,000		

Trabuco Canyon Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

(9) Long-Term Debt, continued

2011 State Revolving Fund Loan

In fiscal year 2011, the District and the State of California, Department of Public Health, entered into a contract for a construction loan in the amount of \$3,694,264 under the Safe Drinking Water State Revolving Fund Law of 1977. The purpose of the loan was to assist the District in financing construction of the Trabuco Creek Wells Facility, which will enable the District to meet the State of California's safe drinking water standards. The loan proceeds were disbursed to the District based upon project expenditures submitted. The final construction costs totaled and submitted were \$3,682,316, which was \$11,948 less than the original contracted amount.

The loan is scheduled to mature in fiscal year 2032. Principal and interest installments are payable each fiscal year at a rate of 2.2836% on July 1st and January 1st. Annual debt service requirements on the loan are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 153,962	76,419	230,381
2016	157,498	72,883	230,381
2017	161,116	69,265	230,381
2018-2022	862,810	289,095	1,151,905
2023-2027	966,545	185,360	1,151,905
2028-2032	<u>1,082,752</u>	<u>69,153</u>	<u>1,151,905</u>
Total	3,384,683	<u>762,175</u>	<u>4,146,858</u>
Current	<u>(153,962)</u>		
Long-term	\$ <u>3,230,721</u>		

Trabuco Canyon Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

(10) Net Position

Calculation of net position as of June 30, were as follows:

	<u>2014</u>	<u>2013</u>
Net investment in capital assets		
Capital assets – not being depreciated	\$ 4,026,626	3,166,190
Capital assets, net – being depreciated	43,875,798	46,521,334
Current:		
Bonds payable	(1,540,000)	(3,930,000)
Loans payable	(76,544)	(75,680)
Non-current:		
Bonds payable, net	(4,458,345)	(6,065,000)
Loans payable	(3,308,139)	(3,384,683)
Total net investment in capital assets	<u>38,519,396</u>	<u>36,342,833</u>
Restricted net position:		
Restricted – cash and investments	11,254,011	10,816,523
Restricted – accrued interest receivable	1,472	1,299
Current:		
Accrued interest payable	(202,041)	(232,740)
Total restricted net position	<u>11,053,442</u>	<u>10,585,082</u>
Restricted net position:		
Restricted – capital projects	3,486,525	3,213,977
Restricted – debt service	7,566,917	7,371,105
Total restricted net position	<u>11,053,442</u>	<u>10,585,082</u>
Unrestricted net position:		
Non-spendable net position:		
Prepaid expenses and other deposits	177,561	224,717
Total non-spendable net position	<u>177,561</u>	<u>224,717</u>
Spendable net position are designated as follows:		
One-time debt reduction and special projects reserve	4,597,219	7,887,384
District-wide capital projects reserve	458,901	458,901
Equipment/maintenance reserve	747,618	896,338
Water rate-stabilization reserve	479,560	479,560
Sewer rate-stabilization reserve	181,159	181,159
Working capital reserve	630,702	630,702
Total spendable net position	<u>7,095,159</u>	<u>10,534,044</u>
Total unrestricted net position	<u>7,272,720</u>	<u>10,758,761</u>
Total net position	<u>\$ 56,845,558</u>	<u>57,686,676</u>

**Trabuco Canyon Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013**

(11) Defined Benefit Pension Plan

Plan Description

The Agency contributes to the California Public Employees Retirement System (CalPERS), a cost-sharing multi-employer defined benefit pension plan. CalPERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS act as a common investment and administrative agent for participating public agencies within the State of California. Benefit provisions and all other requirements are established by state statute and the Agency. Copies of CalPERS annual financial report may be obtained from their executive Office: 400 P Street, Sacramento, CA 95814.

Funding Policy and Annual Pension Cost

The contribution rate for plan members in the CalPERS, 2.5% at 55 Risk Pool Retirement Plan is 8% of their annual covered salary and is paid by the District. The District makes these contributions required of District employees on their behalf and for their account. Also, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The required employer contribution rates are equal to the annual pension costs (APC) percentage of payroll for fiscal years 2014, 2013 and 2012 as noted below. The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS. At fiscal year ended June 30, 2014, the District does not have an unfunded pension liability. For Fiscal years 2014, 2013 and 2012, the District's annual contributions for the CalPERS plan were equal to the Agencies required and actual contributions for each fiscal year as follows:

Three Year Trend Information:

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>	<u>APC Percentage of Payroll</u>
2011-2012	\$ 442,829	100%	-	17.932%
2012-2013	461,501	100%	-	27.131%
2013-2014	383,776	100%	-	21.887%

See Page 30 for the Schedule of Funding Status.

California Public Employees Pension Reform Act of 2013

On September 12, 2012, the California Governor signed the California Public Employees' Pension Reform Act of 2013 (PEPRA) into law. PEPRA took effect January 1, 2013.

Key components of the legislation are as follows:

- Establishes PEPRA which will apply to all public employers and public pension plans on and after January 1, 2013 (Except specific exemptions);
- Establishes new retirement tiers/benefits for new public employees;
- Prohibits certain cash payments from being counted as compensation; and
- Increases retirement age for all new public employees.

Second-Tier – Beginning January 1, 2013

The contribution rate for plan members in the CalPERS 2.0% at 62 Retirement Plan under PEPRA is 6.75% of their annual covered wages. The District filed a Certification of Memorandum of Understanding (MOU) Impairment with CalPERS prior to January 1, 2013. Those District employees within this plan, including those employees hired on or after January 1, 2013 contribute 6.75% of their annual covered wages to their account. Also, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members.

Trabuco Canyon Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

(11) Defined Benefit Pension Plan, continued

Actuarial Methods and Assumptions

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

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

Valuation date	June 30, 2012
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll
Average remaining amortization period	19 years as of the valuation date
Asset valuation method	15 year smoothed market
Actuarial assumptions:	
Discount rate	7.50% (net of administrative expenses)
Projected salary increase	3.30% to 14.20% depending on age, service, and type of employment
Inflation	2.75%
Payroll growth	3.00%
Individual salary growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%

(12) Risk Management

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

- General and auto liability, public officials and employees' errors and omissions: Total risk financing self-insurance limits of \$1,000,000, combined single limit at \$1,000,000 per occurrence. The JPIA purchases additional excess coverage layers: \$60 million per occurrence for general, auto and public officials liability, which increases the limits on the insurance coverage noted above.

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

- Employee dishonesty coverage up to \$100,000 per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverage.
- Property loss is paid at the replacement cost for property on file (\$31,714,916), if replaced within two years after the loss, otherwise paid on an actual cash value basis, to a combined total of \$100 million per occurrence, subject to a \$2,500 deductible per occurrence.
- Boiler and machinery coverage for the replacement cost up to \$50 million per occurrence, subject to various deductibles depending on the type of equipment.

Trabuco Canyon Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

(12) Risk Management, continued

- Dam failure liability coverage up to \$5.0 million per occurrence; the ACWA/JPIA is self-insured up to \$50,000 and excess insurance coverage has been purchased.
- Workers' compensation insurance up to California statutory limits for all work related injuries/illnesses covered by California law. The ACWA/JPIA is self-insured up to \$2.0 million and excess insurance coverage has been purchased.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the year ending June 30, 2014. Liabilities are recorded when it is probable that a loss has been incurred, and the amount of the loss can be reasonably estimated net of the respective insurance coverage.

Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2014, 2013 and 2012, respectively.

(13) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2014, that has effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 68

In June 2012, the GASB issued Statement No. 68 – *Accounting and Financial Reporting for Pensions— an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The provisions of Statement 68 are effective for fiscal years beginning after June 15, 2014. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 70

In April 2013, the GASB issued Statement No. 70 – *Accounting and Financial Reporting for Non-exchange Guarantees*. Provisions of this Statement require that governments that extend non-exchange financial guarantees to recognize a liability when qualitative factors and historic data, if any, indicate that it is more likely than not that the government will be required to make a payments on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows related to the guarantee expected to be incurred. When there is no best estimate but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range. The impact of the implementation of this Statement to District's financial statements has not been assessed at this time.

Trabuco Canyon Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

(13) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 71

In November 2013, the GASB issued Statement No. 71 – *Pension Transition for Contributions made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government’s beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of GASB Statement No. 68. The impact of the implementation of this Statement to District’s financial statements has not been assessed at this time.

(14) Commitments and Contingencies

Economic Dependency

The District purchases a majority of its source of supply from the Santiago Aqueduct Commission. Interruption of this source would impact the District negatively.

Grant Awards

Grant funds received by the District are subject to audit by the grantor agencies. Such audit could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the District believes that such disallowances, if any, would not be significant.

Construction Contracts

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

Litigation

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

(15) Subsequent Events

Events occurring after June 30, 2014, have been evaluated for possible adjustment to the financial statements or disclosure as of September 22, 2014, which is the date the financial statements were available to be issued. The District is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

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Required Supplementary Information

**Trabuco Canyon Water District
Schedule of Funding Status
For the Fiscal Years Ended June 30, 2014 and 2013**

(1) Defined Benefit Pension Plan

Development of the Actuarial Value of Assets Calculation in a Risk Pool

The District is part of the CalPERS Miscellaneous 2.5% at 55 yrs. Risk Pool	<u>June 30, 2011</u>	<u>June 30, 2012</u>	<u>June 30, 2013*</u>
1. Plan's accrued liability	\$ 6,526,427	7,238,616	-
2. Plan's side fund	(590,530)	-	-
3. Pool's accrued liability	2,135,350,204	2,254,622,362	-
4. Pool's side fund	(117,829,589)	(107,443,058)	-
5. Pool's actuarial value of assets (AVA) including receivables	1,724,200,585	1,837,489,422	-
6. Plan's actuarial value of assets (AVA) including receivables [(1+2) / (3+4) x 5]	5,072,898	6,194,583	-
7. Pool's market value of assets (MVA) including receivables	1,543,100,350	1,545,132,565	-
8. Plan's market value of assets (MVA) including receivables [(1+2) / (3+4) x 7]	4,540,070	5,208,983	-

Funding History

The Funding History below shows the actuarial accrued liability, the actuarial value of assets, the market value of assets, funded ratios and the annual covered payroll. The actuarial value of assets is used to establish funding requirements and the funded ratio on this basis represents the progress toward fully funding future benefits for current plan participants. The funded ratio based on the market value of assets is an indicator of the short-term solvency of the plan in the risk pool.

<u>Actuarial Valuation Date</u>	<u>Actuarial Accrued Liability (a)</u>	<u>Share of Pool's Market Value of Assets (MVA) (b)</u>	<u>Plan's Share of Pool's Unfunded Liability (c)</u>	<u>Funded Ratio AVA (b/a)</u>	<u>Annual Covered Payroll</u>
June 30, 2011	\$ 6,526,427	4,540,070	1,986,357	69.6%	\$ 1,655,438
June 30, 2012	7,238,616	5,208,983	2,029,633	72.0%	1,648,442
June 30, 2013	*	-	-	0.00%	-

* CalPERS has not provided the information for these periods as of the date of the audit report.

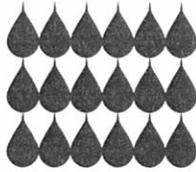
(2) Other Post-Employment Benefits Payable

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (b)</u>	<u>Unfunded Actuarial Liability (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
June 30, 2008	\$ -	1,526,316	1,526,316	0.00%	\$ 1,472,000	103.69%
July 1, 2011	-	1,907,350	1,907,350	0.00%	1,458,000	130.82%
June 30, 2013	-	1,331,868	1,331,868	0.00%	1,603,000	83.09%

Funding progress is presented for the year(s) that an actuarial study has been prepared since the effective date of GASB Statement 45. Actuarial review and analysis of the post-employment benefits liability and funding status is performed every three years or annually, if there are significant changes in the plan. The next scheduled actuarial review and analysis of the post-employment benefits liability and funding status will be performed in fiscal year 2016, based on the year ending June 30, 2015.

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Report on Internal Controls and Compliance



Charles Z. Fedak, CPA, MBA
Paul J. Kaymark, CPA
Christopher J. Brown, CPA

Charles Z. Fedak & Company

Certified Public Accountants
An Accountancy Corporation

6081 Orange Avenue
Cypress, California 90630
(714) 527-1818
(562) 598-6565
FAX (714) 527-9154
EMAIL czfco@czfcpa.com
WEB www.czfcpa.com

Independent Auditor's Report on Internal Controls 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
Trabuco Canyon Water District
Trabuco, 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 Trabuco Canyon Water District (District) as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated September 22, 2014.

Internal Control Over Financial Reporting

In planning and performing our audits 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, 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*.

**Independent Auditor's Report on Internal Controls Over Financial Reporting
And on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*, (continued)**

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.

Charles Z. Fedak : Charles Z. Fedak & Company CPAs - An Accountancy Corporation

Charles Z. Fedak & Company, CPAs - An Accountancy Corporation
Cypress, California
September 22, 2014