



Trabuco Canyon Water District

Annual Financial Report

For the Fiscal Years Ended June 30, 2013 and 2012



**Trabuco Canyon Water District
Board of Directors as of June 30, 2013**

| <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, 2013 and 2012

**Trabuco Canyon Water District
Annual Financial Report
For the Fiscal Years Ended June 30, 2013 and 2012**

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

Charles Z. Fedak & Company

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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, 2013 and 2012, 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, 2013 and 2012, 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

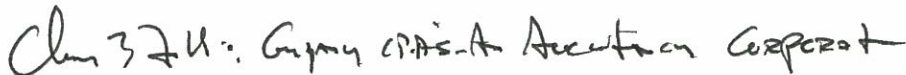
Other Matters

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 32 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 30, 2013, 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 33 and 34.



Charles Z. Fedak and Company, CPAs – An Accountancy Corporation
Cypress, California
September 30, 2013

Trabuco Canyon Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2013 and 2012

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, 2013 and 2012. 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 increased 2.4%, or \$1,359,956 to \$57,686,676, in fiscal year 2013, as a result of operations. In 2012, the District's net position increased 3.3%, or \$1,861,419 to \$56,326,720 as a result of operations and a prior period adjustment.
- 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 2012, the District's operating revenues increased 4.8%, or \$237,900 primarily due to a \$133,377 increase in water consumption sales and a \$75,754 increase in reclaimed water sales.
- In 2013, the District's operating expenses increased 5.8%, or \$393,799, primarily due to increases in source of supply of \$413,728. In 2012, the District's operating expenses increased 4.1% or \$272,007 primarily due to increases in source of supply of \$177,017 and general and administrative-other of \$213,885, which were offset by a decrease in sewer operations of \$112,955.

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, 2013 and 2012

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 31.

Statement of Net Position

Condensed Statements of Net Position

| | 2013 | 2012 | Change |
|---|----------------------|-------------------|--------------------|
| Assets: | | | |
| Current assets | \$ 23,703,485 | 25,937,939 | (2,234,454) |
| Non-current assets | 185,423 | 509,481 | (324,058) |
| Capital assets, net | 49,687,524 | 51,637,883 | (1,950,359) |
| Total assets | 73,576,432 | 78,085,303 | (4,508,871) |
| Liabilities: | | | |
| Current liabilities | 5,034,139 | 7,095,511 | (2,061,372) |
| Non-current liabilities | 10,855,617 | 14,663,072 | (3,807,455) |
| Total liabilities | 15,889,756 | 21,758,583 | (5,868,827) |
| Net Position: | | | |
| Investment in capital assets, net | 36,342,833 | 32,698,402 | 3,644,431 |
| Restricted | 10,585,082 | 9,892,934 | 692,148 |
| Unrestricted | 10,758,761 | 13,735,384 | (2,976,623) |
| Total net position | 57,686,676 | 56,326,720 | 1,359,956 |
| Total liabilities and net position | \$ 73,576,432 | 78,085,303 | (4,508,871) |

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 \$57,686,676 and \$56,326,720, as of June 30, 2013 and 2012, respectively.

By far the largest portion of the District's net position (63% as of June 30, 2013 and 58% as of June 30, 2012) 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 2013 and 2012, the District showed a balance in its restricted net position of \$10,585,082 and \$9,892,934, respectively, which is restricted for future capital projects and debt service repayments.

At the end of fiscal years 2013 and 2012, the District showed a positive balance in its unrestricted net position of \$10,758,761 and \$13,735,384, respectively, which may be utilized in future years. See note 12 for further discussion.

Trabuco Canyon Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2013 and 2012

Statement of Revenues, Expenses and Changes in Net Position

Condensed Statements of Revenues, Expenses and Changes in Net Position

| | <u>2013</u> | <u>2012</u> | <u>Change</u> |
|---------------------------------|----------------------|-------------------|--------------------|
| Revenue: | | | |
| Operating revenue | \$ 5,747,798 | 5,250,997 | 496,801 |
| Non-operating revenue | <u>5,676,599</u> | <u>7,458,398</u> | <u>(1,781,799)</u> |
| Total revenue | <u>11,424,397</u> | <u>12,709,395</u> | <u>(1,284,998)</u> |
| Expense: | | | |
| Operating expense | 7,228,323 | 6,834,524 | 393,799 |
| Depreciation | 2,734,243 | 2,749,493 | (15,250) |
| Non-operating expense | <u>1,014,429</u> | <u>1,291,125</u> | <u>(276,696)</u> |
| Total expense | <u>10,976,995</u> | <u>10,875,142</u> | <u>101,853</u> |
| Net income before capital | 447,402 | 1,834,253 | (1,386,851) |
| Capital contributions: | | | |
| Change in net position | <u>1,359,956</u> | <u>2,751,218</u> | <u>(1,391,262)</u> |
| Net position, beginning of year | 56,326,720 | 54,465,301 | 1,861,419 |
| Prior period adjustment | <u>-</u> | <u>(889,799)</u> | <u>889,799</u> |
| Net position, end of year | <u>\$ 57,686,676</u> | <u>56,326,720</u> | <u>1,359,956</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 District's change in net position increased by \$1,359,956 and \$2,751,218 for the fiscal years ended June 30, 2013 and 2012, respectively.

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

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 2012, the District's operating revenues increased 4.8% or \$237,900 primarily due to a \$133,377 increase in water consumption sales and a \$75,754 increase in reclaimed water sales.

In 2013, the District's operating expenses increased 5.8%, or \$393,799, primarily due to increases in source of supply of \$413,728. In 2012, the District's operating expenses increased 4.1%, or \$272,007, primarily due to increases in source of supply of \$177,017 and general and administrative – other of \$213,885, which were offset by a decrease in sewer operations of \$112,955.

Trabuco Canyon Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2013 and 2012

Capital Asset Administration

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> |

Changes in capital asset amounts for 2012 were as follows:

| | <u>Balance 2011</u> | <u>Additions</u> | <u>Transfers/ Deletions</u> | <u>Balance 2012</u> |
|---------------------------|-------------------------|--------------------|---------------------------------|-------------------------|
| Capital assets: | | | | |
| Non-depreciable assets | \$ 3,079,860 | 1,177,690 | (782,709) | 3,474,841 |
| Depreciable assets | 97,186,978 | 349,039 | (68,242) | 97,467,775 |
| Accumulated depreciation | <u>(46,623,482)</u> | <u>(2,749,493)</u> | <u>68,242</u> | <u>(49,304,733)</u> |
| Total capital assets, net | <u>\$ 53,643,356</u> | <u>(1,222,764)</u> | <u>(782,709)</u> | <u>51,637,883</u> |

At the end of fiscal year 2013 and 2012, the District's investment in capital assets amounted to \$46,687,524 and \$51,637,883 (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 7 for further information.

Debt Administration

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 | \$ 15,485,000 | - | (5,490,000) | 9,995,000 |
| 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> |

Changes in long-term debt amounts for 2012 were as follows:

| | <u>Balance 2011</u> | <u>Additions</u> | <u>Principal Payments</u> | <u>Balance 2012</u> |
|----------------------|-------------------------|------------------|-------------------------------|-------------------------|
| Long-term debt: | | | | |
| Bonds payable | \$ 20,795,000 | - | (5,310,000) | 15,485,000 |
| Loans payable | <u>3,017,783</u> | <u>664,533</u> | <u>(73,146)</u> | <u>3,609,170</u> |
| Total long-term debt | <u>\$ 23,611,039</u> | <u>664,533</u> | <u>(5,336,091)</u> | <u>19,094,170</u> |

See note 11 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, 2013 and 2012

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, 2013 and 2012

| <i>Assets and Deferred Outflow of Resources</i> | 2013 | 2012 |
|--|----------------------|-------------------|
| Current assets: | | |
| Cash and investments (note 2) | \$ 11,478,918 | 14,488,043 |
| Restricted – cash and investments (note 2 and 3) | 10,816,523 | 10,217,160 |
| Accrued interest receivable | 9,483 | 17,346 |
| Restricted – accrued interest receivable (note 3) | 1,299 | 1,557 |
| Accounts receivable – water sales and sewer services, net (note 4) | 936,326 | 701,238 |
| Property taxes receivable | 22,221 | 16,567 |
| Special assessments receivable | 49,620 | 109,561 |
| Accounts receivable – other | 142,987 | 173,239 |
| Note receivable – AMP – current portion (note 5) | 21,391 | 19,829 |
| Note receivable – property taxes from state (note 6) | - | 97,170 |
| Prepaid expenses and other deposits | 224,717 | 96,229 |
| Total current assets | <u>23,703,485</u> | <u>25,937,939</u> |
| Non-current assets: | | |
| Note receivable – AMP (note 5) | 74,751 | 96,142 |
| Deferred charges, net | - | 258,650 |
| Capital assets – not being depreciated (note 7) | 3,166,190 | 3,474,841 |
| Capital assets, net – being depreciated (note 7) | 46,521,334 | 48,163,042 |
| Total non-current assets | <u>49,762,275</u> | <u>51,992,675</u> |
| Deferred outflows of resources: (note 8) | | |
| Discount on bonds, net | 110,672 | 154,689 |
| Total deferred outflows of resources | <u>110,672</u> | <u>154,689</u> |
| Total assets and deferred outflows of resources | <u>\$ 73,576,432</u> | <u>78,085,303</u> |
| <i>Liabilities and Net Position</i> | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 450,786 | 836,303 |
| Accrued wages and related payables | 87,634 | 102,889 |
| Customer deposits and deferred revenue | 213,428 | 218,964 |
| Accrued interest payable | 232,740 | 325,783 |
| Long-term liabilities – due within one year: | | |
| Compensated absences (note 9) | 43,871 | 47,591 |
| Bonds payable (note 11) | 3,930,000 | 5,490,000 |
| Loans payable (note 11) | 75,680 | 73,981 |
| Total current liabilities | <u>5,034,139</u> | <u>7,095,511</u> |
| Non-current liabilities: | | |
| Long-term liabilities – due in more than one year: | | |
| Compensated absences (note 9) | 131,612 | 142,772 |
| Post-employment benefits payable (note 10) | 1,274,322 | 990,111 |
| Bonds payable (note 11) | 6,065,000 | 9,995,000 |
| Loans payable (note 11) | 3,384,683 | 3,535,189 |
| Total non-current liabilities | <u>10,855,617</u> | <u>14,663,072</u> |
| Total liabilities | <u>15,889,756</u> | <u>21,758,583</u> |
| Net position: (note 12) | | |
| Investment in capital assets, net of related debt | 36,342,833 | 32,698,402 |
| Restricted – capital projects | 3,213,977 | 2,668,250 |
| Restricted – debt service | 7,371,105 | 7,224,684 |
| Unrestricted – operational funds | 10,758,761 | 13,735,384 |
| Total net position | <u>57,686,676</u> | <u>56,326,720</u> |
| Total liabilities and net position | <u>\$ 73,576,432</u> | <u>78,085,303</u> |

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, 2013 and 2012

| | 2013 | 2012 |
|--|----------------------|----------------------|
| Operating revenues: | | |
| Water consumption sales | \$ 3,144,709 | 2,647,053 |
| Water service charges | 612,431 | 609,677 |
| Sewer service charges | 1,153,676 | 1,182,789 |
| Reclaimed water sales | 678,462 | 633,239 |
| Recycled water sales | 112,512 | 115,464 |
| Other charges for services | 46,008 | 62,775 |
| Total operating revenues | 5,747,798 | 5,250,997 |
| Operating expenses: | | |
| Source of supply | 1,945,984 | 1,532,257 |
| Pumping | 402,334 | 352,296 |
| Water treatment | 238,233 | 92,037 |
| Transmission and distribution | 168,133 | 198,422 |
| Sewer operations | 803,821 | 643,131 |
| General and administrative – salaries and benefits | 3,058,706 | 3,074,998 |
| General and administrative – other | 611,111 | 941,383 |
| Total operating expenses | 7,228,322 | 6,834,524 |
| Operating loss before depreciation expense | (1,480,524) | (1,583,527) |
| Depreciation expense | (2,734,244) | (2,749,493) |
| Operating loss | (4,214,768) | (4,333,020) |
| Non-operating revenue (expense): | | |
| Property taxes | 1,643,817 | 1,247,027 |
| Special assessments for debt service | 3,875,069 | 6,083,087 |
| Investment earnings | 35,321 | 62,392 |
| Rental revenue | 21,559 | 21,713 |
| Interest expense | (770,062) | (1,104,077) |
| Amortization of debt related items | (177,184) | (127,197) |
| Debt administration charges | (39,564) | (47,373) |
| Property tax administration charge | (27,619) | (12,478) |
| Other non-operating revenue | 100,833 | 44,179 |
| Total non-operating, net | 4,662,170 | 6,167,273 |
| Net income before capital contributions | 447,402 | 1,834,253 |
| Capital contributions: | | |
| Water reliability and emergency storage fees | 912,554 | 916,965 |
| Total capital contributions | 912,554 | 916,965 |
| Change in net position | 1,359,956 | 2,751,218 |
| Net position, beginning of year | 56,326,720 | 54,465,301 |
| Prior period adjustments | - | (889,799) |
| Net position, end of year | \$ 57,686,676 | \$ 56,326,720 |

See accompanying notes to the basic financial statements

Trabuco Canyon Water District
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2013 and 2012

| | <u>2013</u> | <u>2012</u> |
|--|----------------------|--------------------|
| Cash flows from operating activities: | | |
| Cash receipts from customers for water sales and services | \$ 5,665,354 | 5,539,698 |
| Cash paid to employees for salaries and wages | (1,729,861) | (1,860,856) |
| Cash paid to vendors and suppliers for materials and services | <u>(5,705,626)</u> | <u>(5,203,617)</u> |
| Net cash used in operating activities | <u>(1,770,133)</u> | <u>(1,524,775)</u> |
| Cash flows from non-capital financing activities: | | |
| Property taxes | <u>1,735,333</u> | <u>1,244,966</u> |
| Net cash provided by non-capital financing activities | <u>1,735,333</u> | <u>1,244,966</u> |
| Cash flows from capital and related financing activities: | | |
| Acquisition and construction of capital assets | (783,885) | (744,020) |
| Capital contributions | 912,554 | 916,965 |
| Proceeds received from loan payable principal | - | 664,533 |
| Proceeds from special assessments for debt service | 3,935,010 | 6,101,880 |
| Principal paid | (5,638,807) | (5,383,146) |
| Interest paid | <u>(863,105)</u> | <u>(1,220,865)</u> |
| Net cash provided by (used in) capital and related financing activities | <u>(2,438,233)</u> | <u>335,347</u> |
| Cash flows from investing activities: | | |
| Principal received on note receivable – AMP | 19,829 | 18,437 |
| Investment earnings | <u>43,442</u> | <u>61,491</u> |
| Net cash provided by investing activities | <u>63,271</u> | <u>79,928</u> |
| Net increase(decrease) in cash and cash equivalents | (2,409,762) | 135,466 |
| Cash and cash equivalents, beginning of year | <u>24,705,203</u> | <u>24,569,737</u> |
| Cash and cash equivalents, end of year | <u>\$ 22,295,441</u> | <u>24,705,203</u> |
| Reconciliation of cash and cash equivalents to statement of financial position: | | |
| Cash and cash equivalents | \$ 11,478,918 | 14,488,043 |
| Restricted assets – cash and cash equivalents | <u>10,816,523</u> | <u>10,217,160</u> |
| Total cash and cash equivalents | <u>\$ 22,295,441</u> | <u>24,705,203</u> |

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, 2013 and 2012

| | 2013 | 2012 |
|--|----------------|-------------|
| Reconciliation of operating loss to net cash used in operating activities: | | |
| Operating loss | \$ (4,214,768) | (4,333,020) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | | |
| Deprecation | 2,734,244 | 2,749,493 |
| Rental revenue | 21,559 | 21,713 |
| Debt administration charges | (39,564) | (47,373) |
| Property tax administration charge | (27,619) | (12,478) |
| Other non-operating income, net | 100,833 | 44,179 |
| Prior period adjustment | - | (889,799) |
| Changes in assets and liabilities: | | |
| (Increase)decrease in assets: | | |
| Accounts receivable – water sales and sewer services, net | (235,088) | 160,996 |
| Accounts receivable – other | 30,252 | 61,813 |
| Materials and supplies inventory | - | 26,570 |
| Prepaid expenses and other deposits | (3,005) | (12,226) |
| Increase(decrease) in liabilities: | | |
| Accounts payable and accrued expenses | (385,517) | 440,415 |
| Accrued wages and related payables | (15,255) | 18,365 |
| Customer deposits and deferred revenue | (5,536) | 3,806 |
| Compensated absences | (14,880) | 1,043 |
| Post-employment benefits payable | 284,211 | 241,728 |
| Total adjustments | 2,444,635 | 2,808,245 |
| Net cash used in operating activities | \$ (1,770,133) | (1,524,775) |

See accompanying notes to the basic financial statements

Trabuco Canyon Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

(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.

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.

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.

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 are prepared in accordance with Generally Accepted Accounting Principles in the United States of America (GAAP) issued by the Governmental Accounting Standards Board (GASB) applicable to governmental entities that use proprietary fund accounting, including GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements*. Revenues are recognized when earned, and costs and expenses are recognized when incurred.

Trabuco Canyon Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

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

C. Financial Reporting

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* effective for financial statements for periods beginning after December 15, 2011. The District implemented this new pronouncement in the current year. The effect of the implementation of this statement to the District is limited to renaming of *Net Assets* to *Net Position*.

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, 2013 and 2012

(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:

- **Investment in Capital Assets, Net of Related Debt** – 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, 2013 and 2012**

(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.

E. Implementation of New Accounting Pronouncements

Governmental Accounting Standards Board Statement No. 63 – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position effective for financial statements for periods beginning after December 15, 2011. The District implemented this new pronouncement in the current year. The effect of the implementation of this Statement to the District is limited to renaming of *Net Assets* to *Net Position*.

Governmental Accounting Standards Board Statement No. 65 – In March 2012, the GASB issued Statement No. 65 – *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

(2) Cash and Investments

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

| | 2013 | 2012 |
|--|---------------|-------------|
| Cash and cash equivalents | \$ 11,478,918 | 14,488,043 |
| Restricted – cash and cash equivalents | 10,816,523 | 10,217,160 |
| Total cash and investments | \$ 22,295,441 | 24,705,203 |

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

| | 2013 | 2012 |
|--------------------------------------|---------------|-------------|
| Cash on hand | \$ 500 | 500 |
| Deposits with financial institutions | 1,245,543 | 364,335 |
| Deposits in money-market funds | 7,552,998 | 7,535,398 |
| Investments | 13,496,400 | 16,804,970 |
| Total cash and investments | \$ 22,295,441 | 24,705,203 |

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

| | 2013 | 2012 |
|--|-------------|-------------|
| Deposits in Local Agency Investment Fund | 278 days | 270 days |

Trabuco Canyon Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

(2) Cash and Investments, continued

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.

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.

Custodial Credit Risk, continued

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

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.

**Trabuco Canyon Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012**

(2) Cash and Investments, continued

Concentration of Credit Risk

The District's investment policy contains no limitations on the amounts that can be invested in any one issuer as beyond that stipulated by the California Government Code. 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, 2013 and 2012, respectively.

(3) Restricted Assets

Restricted assets consisted of the following as of June 30:

| | <u>2013</u> | <u>2012</u> |
|--|----------------------|-------------------|
| Restricted – cash and investments | \$ 10,816,523 | 10,217,160 |
| Restricted – accrued interest receivable | <u>1,299</u> | <u>1,557</u> |
| Total restricted assets | <u>\$ 10,817,822</u> | <u>10,218,717</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>2013</u> | <u>2012</u> |
|--|-------------------|----------------------|-------------------|
| Refunding revenue bond proceeds | Reserve fund | \$ 7,552,998 | 7,535,398 |
| Water reliability and emergency storage fees | Capital purchases | 2,027,413 | 1,469,708 |
| Development impact fees | Capital purchases | 1,116,276 | 1,116,277 |
| Special assessment | Capital at RD5 | 70,288 | 70,099 |
| General revenues | Debt service | <u>50,847</u> | <u>27,235</u> |
| Total restricted assets sources and uses | | <u>\$ 10,817,822</u> | <u>10,218,717</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>2013</u> | <u>2012</u> |
|---------------------------------------|-------------------|----------------|
| Accounts receivable – water and sewer | \$ 937,573 | 704,525 |
| Allowance for doubtful accounts | <u>(1,247)</u> | <u>(3,287)</u> |
| Total accounts receivable, net | <u>\$ 936,326</u> | <u>701,238</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.

Trabuco Canyon Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

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

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 principal balance remaining on the note as of June 30th was as follows:

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

| | 2013 | 2012 |
|---|-------------|-------------|
| Note receivable – AMP – current portion | \$ 21,391 | 19,829 |
| Note receivable – AMP | 74,751 | 96,142 |
| Total note receivable – AMP | \$ 96,142 | 115,971 |

Note receivable – AMP repayment schedule as of June 30:

| Year | | Principal | Interest | Total |
|-------------|----|------------------|-----------------|--------------|
| 2014 | \$ | 21,391 | 4,988 | 26,379 |
| 2015 | | 23,055 | 3,691 | 26,746 |
| 2016 | | 24,905 | 2,291 | 27,196 |
| 2017 | | 26,791 | 782 | 27,573 |
| | \$ | 96,142 | 11,752 | 107,894 |

(6) Note Receivable – Property Tax from State

Under the provisions of the State of California Proposition 1A and as part of the 2010 fiscal year State of California budget package passed by the California State Legislature on July 28, 2009, the State of California borrowed 8.0% of the amount of property tax revenue apportioned to cities, counties and special districts. The State of California is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California State Legislature may consider only one additional borrowing within a ten-year period. The amount of the borrowing pertaining to the District was \$95,473 in addition to \$1,697 of accrued interest for a total of \$97,170, which was paid by June 30, 2013.

Trabuco Canyon Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

(7) 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 \$827,076 and \$1,135,728 at June 30, 2013 and 2012, respectively.

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

| | <u>2013</u> | <u>2012</u> |
|---|-------------------|------------------|
| Baker regional water treatment plant | \$ 377,704 | 257,578 |
| Dimension water treatment generator | 40,621 | 40,621 |
| Shadow rock detersion basin | 84,504 | 38,288 |
| Dove/Trabuco intertie reservoir | - | 533,206 |
| Alternate raw water transmission lines | 300,493 | 138,900 |
| Trabuco creek wells - remote monitoring | - | 90,474 |
| Pressure regulator stations | - | 36,661 |
| Various other minor projects | 23,754 | - |
| Total construction-in-process | <u>\$ 827,076</u> | <u>1,135,728</u> |

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, 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> |

Trabuco Canyon Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

(7) Capital Assets, continued

Changes in capital assets for the year ended June 30, 2012, were as follows:

| | <u>Balance 2011</u> | <u>Additions/</u> | <u>Deletions/ Transfers</u> | <u>Balance 2012</u> |
|--|-------------------------|--------------------|---------------------------------|-------------------------|
| Non-depreciable assets: | | | | |
| Land and land rights | \$ 2,339,113 | - | - | 2,339,113 |
| Construction-in-process | 740,747 | 1,177,690 | (782,709) | 1,135,728 |
| Total non-depreciable assets | <u>3,079,860</u> | <u>1,177,690</u> | <u>(782,709)</u> | <u>3,474,841</u> |
| Depreciable assets: | | | | |
| Water transmission and distribution system | 45,452,860 | 52,510 | - | 45,505,370 |
| Wastewater system | 49,753,998 | 256,002 | (6,342) | 50,003,658 |
| Structures and improvements | 1,476,347 | - | - | 1,476,347 |
| Machinery and equipment | 441,873 | 40,527 | - | 482,400 |
| Intangible plant | 61,900 | - | (61,900) | - |
| Total depreciable assets | <u>97,186,978</u> | <u>349,039</u> | <u>(68,242)</u> | <u>97,467,775</u> |
| Accumulated depreciation: | | | | |
| Water transmission and distribution system | (21,359,402) | (1,210,737) | - | (22,570,139) |
| Wastewater system | (24,251,566) | (1,378,340) | 6,342 | (25,623,564) |
| Structures and improvements | (769,241) | (43,668) | - | (812,909) |
| Machinery and equipment | (243,273) | (54,848) | - | (298,121) |
| Intangible plant | - | (61,900) | 61,900 | - |
| Total accumulated depreciation | <u>(46,623,482)</u> | <u>(2,749,493)</u> | <u>68,242</u> | <u>(49,304,733)</u> |
| Total depreciable assets, net | <u>50,563,496</u> | <u>(2,400,454)</u> | - | <u>48,163,042</u> |
| Total capital assets, net | <u>\$ 53,643,356</u> | <u>(1,222,764)</u> | <u>(782,709)</u> | <u>51,637,883</u> |

(8) Deferred Outflows of Resources

Changes in deferred outflows of resources for 2013, were as follows:

| | <u>Balance 2012</u> | <u>Additions</u> | <u>Amortization</u> | <u>Balance 2013</u> |
|--------------------------------------|-------------------------|------------------|---------------------|-------------------------|
| Deferred outflows of resources: | | | | |
| Discount on revenue bonds | \$ 154,689 | - | (44,017) | 110,672 |
| Total deferred outflows of resources | <u>\$ 154,689</u> | <u>-</u> | <u>(44,017)</u> | <u>110,672</u> |

(9) Compensated Absences

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> |
|-------------------------|---------------|--------------|-------------------------|----------------------------|------------------------------|
| \$ 190,363 | 166,177 | (181,057) | 175,483 | 43,871 | 131,612 |

Changes to compensated absences for 2012, were as follows:

| <u>Balance 2011</u> | <u>Earned</u> | <u>Taken</u> | <u>Balance 2012</u> | <u>Current Portion</u> | <u>Long-term Portion</u> |
|-------------------------|---------------|--------------|-------------------------|----------------------------|------------------------------|
| \$ 189,320 | 137,452 | (136,409) | 190,363 | 47,591 | 142,772 |

**Trabuco Canyon Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012**

(10) 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.

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:

| | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|---|-------------|-------------|-------------|
| Active plan members | 19 | 24 | 24 |
| Retirees and beneficiaries receiving benefits | 4 | 3 | 3 |
| Separated plan members entitled to but not yet receiving benefits | - | - | - |
| Total plan membership | <u>23</u> | <u>27</u> | <u>27</u> |

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 funds the plan on a pay-as-you-go basis and maintains reserves (and records a liability) for the difference between pay-as-you-go and the actuarially determined ARC cost.

Annual OPEB Cost and Net OPEB Obligation

For the year ended June 30, 2013, the District’s ARC cost was \$326,109. The District’s net OPEB payable obligation amounted to \$1,274,322 for the year ended June 30, 2013. The District contributed \$41,898 in age adjusted contributions for current retiree OPEB premiums, for the year ended June 30, 2013. The current ARC rate is 19.82% of the District’s annual covered payroll.

Trabuco Canyon Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

(10) Post-Employment Benefits Payable, continued

Annual OPEB Cost and Net OPEB Obligation, continued

| | | | |
|--|---------------------|----------------|----------------|
| The balance at June 30, consists of the following: | <u>2013</u> | <u>2012</u> | <u>2011</u> |
| Annual OPEB expense: | | | |
| Annual required contribution (ARC) | \$ 276,602 | 290,291 | 272,651 |
| Interest on net OPEB obligation | 49,507 | 37,419 | 24,173 |
| Adjustment to annual required contribution | - | (51,108) | - |
| Total annual OPEB expense | <u>326,109</u> | <u>276,602</u> | <u>296,824</u> |
| Change in net OPEB payable obligation: | | | |
| Age adjusted contributions made | (41,898) | (34,874) | (31,909) |
| Total change in net OPEB payable obligation | <u>284,211</u> | <u>241,728</u> | <u>264,915</u> |
| OPEB payable – beginning of year | <u>990,111</u> | <u>748,383</u> | <u>483,468</u> |
| OPEB payable – end of year | <u>\$ 1,274,322</u> | <u>990,111</u> | <u>748,383</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 2013 and the three preceding years were as follows:

Three-Year History of Net OPEB Obligation

| <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> |
|----------------------------------|---------------------------------|---------------------------------|---|--|
| 2013 | \$ 326,109 | 41,898 | 12.85% | \$ 1,274,322 |
| 2012 | 276,602 | 34,874 | 12.61% | 990,111 |
| 2011 | 296,824 | 31,909 | 10.75% | 748,383 |

The most recent valuation (dated July 1, 2011) includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of \$1,907,350. The covered payroll (annual payroll of active employees covered by the plan) for the year ended June 30, 2013, was estimated at \$1,505,000. The ratio of the unfunded actuarial accrued liability to annual covered payroll is 131%.

See Page 32 for the Schedule of Funding Status.

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, 2013 and 2012

(10) Post-Employment Benefits Payable, continued

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

| | |
|-------------------------------|-----------------------------------|
| Valuation date | July 1, 2011 |
| Actuarial cost method | Entry age normal cost method |
| Amortization method | Level percent of payroll |
| Remaining amortization period | 30 Years as of the valuation date |
| Asset valuation method | 30 Year smoothed market |
| Actuarial assumptions: | |
| Investment rate of return | 5.00% |
| Projected salary increase | 3.00% |
| Inflation - discount rate | 3.00% |

(11) Long-Term Debt

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

| | <u>Balance</u> <u>2012</u> | <u>Additions</u> | <u>Payments</u> | <u>Balance</u> <u>2013</u> | <u>Current</u> <u>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 | <u>5,795,000</u> | <u>-</u> | <u>(580,000)</u> | <u>5,215,000</u> | <u>615,000</u> |
| Total bonds payable | <u>15,485,000</u> | <u>-</u> | <u>(5,490,000)</u> | <u>9,995,000</u> | <u>3,930,000</u> |
| Loans payable: | | | | | |
| 2011 State revolving fund loan | <u>3,609,170</u> | <u>-</u> | <u>(148,807)</u> | <u>3,460,363</u> | <u>75,680</u> |
| 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>\$ 19,094,170</u> | <u>-</u> | <u>(5,638,807)</u> | <u>13,455,363</u> | <u>4,005,680</u> |

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

| | <u>Balance</u> <u>2011</u> | <u>Additions</u> | <u>Payments</u> | <u>Balance</u> <u>2012</u> | <u>Current</u> <u>Portion</u> |
|---------------------------------------|-------------------------------|------------------|--------------------|-------------------------------|----------------------------------|
| Long-term debt: | | | | | |
| Bonds payable: | | | | | |
| 1994 Series A Refunding revenue bonds | \$ 13,220,000 | - | (4,220,000) | 9,000,000 | 4,570,000 |
| 1994 Series B Refunding revenue bonds | 1,230,000 | - | (540,000) | 690,000 | 340,000 |
| 1994 Series C Refunding revenue bonds | <u>6,345,000</u> | <u>-</u> | <u>(550,000)</u> | <u>5,795,000</u> | <u>580,000</u> |
| Total bonds payable | <u>20,795,000</u> | <u>-</u> | <u>(5,310,000)</u> | <u>15,485,000</u> | <u>5,490,000</u> |
| Loans payable: | | | | | |
| 2011 State revolving fund loan | <u>3,017,783</u> | <u>664,533</u> | <u>(73,146)</u> | <u>3,609,170</u> | <u>73,981</u> |
| Total loans payable | <u>3,017,783</u> | <u>664,533</u> | <u>(73,146)</u> | <u>3,609,170</u> | <u>73,981</u> |
| Total long-term debt | <u>\$ 23,812,783</u> | <u>664,533</u> | <u>(5,383,146)</u> | <u>19,094,170</u> | <u>5,563,981</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, 2013 and 2012

(11) 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:

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------|---------------------|-----------------|------------------|
| 2014 | \$ 3,300,000 | 169,580 | 3,469,580 |
| 2015 | 545,000 | 52,308 | 597,308 |
| 2016 | 585,000 | 17,842 | 602,842 |
| Total | 4,430,000 | <u>239,730</u> | <u>4,669,730</u> |
| Current | <u>(3,300,000)</u> | | |
| Long-term | <u>\$ 1,130,000</u> | | |

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> |
|-------------|-------------------|-----------------|----------------|
| 2014 | \$ 15,000 | 23,975 | 38,975 |
| 2015 | 335,000 | 11,725 | 346,725 |
| Total | 350,000 | <u>35,700</u> | <u>385,700</u> |
| Current | <u>(15,000)</u> | | |
| Long-term | <u>\$ 335,000</u> | | |

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> |
|-------------|---------------------|------------------|------------------|
| 2014 | \$ 615,000 | 299,388 | 914,388 |
| 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 | 5,215,000 | <u>1,188,777</u> | <u>6,403,777</u> |
| Current | <u>(615,000)</u> | | |
| Long-term | <u>\$ 4,600,000</u> | | |

**Trabuco Canyon Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012**

(11) 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> |
|-------------|---------------------|-----------------|------------------|
| 2014 | \$ 75,680 | 79,875 | 155,555 |
| 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 | 3,460,363 | <u>842,050</u> | <u>4,302,413</u> |
| Current | <u>(75,680)</u> | | |
| Long-term | <u>\$ 3,384,683</u> | | |

Trabuco Canyon Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

(12) Net Position

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

| | <u>2013</u> | <u>2012</u> |
|--|----------------------|-------------------|
| Investment in capital assets, net of related debt | | |
| Capital assets, not being depreciated | \$ 3,166,190 | 3,474,841 |
| Depreciable capital assets, net | 46,521,334 | 48,163,042 |
| Current: | | |
| Bonds payable | (3,930,000) | (5,490,000) |
| Loans payable | (75,680) | (73,981) |
| Non-current: | | |
| Bonds payable | (6,065,000) | (9,995,000) |
| Loans payable | (3,384,683) | (3,535,189) |
| Deferred inflows of resources | 110,672 | 154,689 |
| Total investment in capital assets, net of related debt | <u>36,342,833</u> | <u>32,698,402</u> |
| Restricted net position: | | |
| Restricted – cash and investments | 10,816,523 | 10,217,160 |
| Restricted – accrued interest receivable | 1,299 | 1,557 |
| Current: | | |
| Accrued interest payable | (232,740) | (325,783) |
| Total restricted net position | <u>10,585,082</u> | <u>9,892,934</u> |
| Restricted net position: | | |
| Restricted – capital projects | 3,213,977 | 2,668,250 |
| Restricted – debt service | 7,371,105 | 7,224,684 |
| Total restricted net position | <u>10,585,082</u> | <u>9,892,934</u> |
| Unrestricted net position: | | |
| Non-spendable net position: | | |
| Prepaid expenses and other deposits | 224,717 | 96,229 |
| Deferred charges, net | - | 258,650 |
| Total non-spendable net position | <u>224,717</u> | <u>354,879</u> |
| Spendable net position are designated as follows: | | |
| One-time debt reduction and special projects reserve | 7,887,384 | 9,154,418 |
| District-wide capital projects reserve | 458,901 | 458,901 |
| Equipment/maintenance reserve | 896,338 | 303,043 |
| Water rate-stabilization reserve | 479,560 | 479,560 |
| Sewer rate-stabilization reserve | 181,159 | 181,159 |
| Working capital reserve | 630,702 | 630,702 |
| Operating reserve | - | 2,172,722 |
| Total spendable net position | <u>10,534,044</u> | <u>13,380,505</u> |
| Total unrestricted net position | <u>10,758,761</u> | <u>13,735,384</u> |
| Total net position | <u>\$ 57,686,676</u> | <u>56,326,720</u> |

**Trabuco Canyon Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012**

(13) 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 provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts 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

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 2013, 2012 and 2011 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, 2013, the District does not have an unfunded pension liability. For Fiscal years 2013, 2012 and 2011, 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> |
|------------------------|--|--|---------------------------------------|--|
| 2010-2011 | \$ 391,704 | 100% | - | 15.184% |
| 2011-2012 | 442,829 | 100% | - | 17.932% |
| 2012-2013 | 461,501 | 100% | - | 27.131% |

See Page 32 for the Schedule of Funding Status.

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, 2013 and 2012

(13) Defined Benefit Pension Plan, continued

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

| | |
|---------------------------------------|---|
| Valuation date | June 30, 2011 |
| Actuarial cost method | Entry age normal cost method |
| Amortization method | Level percent of payroll |
| Average remaining amortization period | 21 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% |

(14) 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, 2013, 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.
- 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, 2013. Liabilities are recorded when it is probable that a loss has been incurred, and the amount of the loss can be reasonably estimated net of the respective insurance coverage.

Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2013, 2012 and 2011, respectively.

Trabuco Canyon Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2013, 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. 69

In January 2013, the GASB issued Statement No. 69 – *Government Combinations and Disposals of Government Operations*. The objective of this Statement is to provide new accounting and financial reporting standards for government mergers and acquisitions and for government operations that have been transferred or sold. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2013. The impact of the implementation of this Statement to 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, 2013 and 2012

(16) Prior Period Adjustment

Prior period adjustment for the year ended June 30, 2012, comprised of the following:

| | 2012 |
|---|---------------|
| Net position, beginning of year as previously stated: | \$ 54,465,301 |
| CalPERS Side-Fund payoff | (514,053) |
| Capitalized costs expensed | (375,746) |
| Total adjustments | (889,799) |
| Change in net position, as stated | 2,751,218 |
| Net position, end of year with restatement | \$ 56,326,720 |

CalPERS Side-Fund Payoff

As of June 30, 2003, CalPERS implemented risk-pooling for the District's agent multiple-employer public employee defined benefit pension plan. As a result, the District's defined benefit pension plan with CalPERS converted from an agent multiple-employer plan to a cost sharing multiple-employer plan. This change in the type of the plan created the CalPERS Side-Fund, which CalPERS financed at a 7.75% interest rate. CalPERS actuarially calculated the amount needed to bring the District into the cost sharing multiple-employer plan on an equal basis with other governmental agencies that all had less than 100 active and retired employees combined. The reason that CalPERS switched these governmental agencies into the cost sharing multiple-employer plan was to smooth out the annual costs related to the pension benefit over a longer period of time resulting in a lower cost of service to the governmental agencies.

A portion of the District's annual required contributions to CalPERS are actuarially determined and shared by all governmental agencies within the cost sharing risk pool. Also, the District was required to make annual payments to pay-down the CalPERS Side-Fund, as well. The responsibility for paying-down the District's CalPERS Side-Fund is specific to the District and is not shared by all governmental agencies within the cost sharing risk pool. Therefore, the Side Fund falls under the definition of pension-related debt, as described in GASB Statement No. 27 and was to be recorded as liability on the District's financial statements. The District has paid off the side-fund by June 30, 2013.

As of June 30, 2012, the District decided to payoff its Side-Fund obligation of \$514,053, resulting in an economic gain of \$266,001 from the interest expense savings on the pension-related debt, and has recorded the expense as a prior period adjustment due to its origination in a prior fiscal year.

Capitalized Costs Expensed

In fiscal year 2012, the District was reviewing the costs incurred to repair the pipeline damages suffered from the 2010 winter storms and which were subsequently capitalized to a construction-process project in the prior year. The District determined that the costs incurred were general repairs and would not extend the useful life of the damaged transmission pipeline. Therefore, the District has recorded the expense of \$375,746 as a prior period adjustment due to incurring the costs and capitalizing them in prior fiscal years.

Trabuco Canyon Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

(17) 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.

(18) Subsequent Events

Events occurring after June 30, 2013, have been evaluated for possible adjustment to the financial statements or disclosure as of September 30, 2013, 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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Trabuco Canyon Water District
Schedule of Funding Status
For the Fiscal Years Ended June 30, 2013 and 2012

(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 | - | - |
| 2. Plan's side fund | (590,530) | - | - |
| 3. Pool's accrued liability | 2,135,350,204 | - | - |
| 4. Pool's side fund | (117,829,589) | - | - |
| 5. Pool's actuarial value of assets (AVA) including receivables | 1,724,200,585 | - | - |
| 6. Plan's actuarial value of assets (AVA) including receivables [(1+2) / (3+4) x 5] | 5,072,898 | - | - |
| 7. Pool's market value of assets (MVA) including receivables | 1,543,100,350 | - | - |
| 8. Plan's market value of assets (MVA) including receivables [(1+2) / (3+4) x 7] | 4,540,070 | - | - |

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.

| Actuarial Valuation Date | Actuarial Accrued Liability (a) | Actuarial Value of Assets (AVA) (b) | Market Value of Assets (MVA) (c) | Funded Ratio AVA (b/a) | MVA (c/a) | Annual Covered Payroll |
|--------------------------|---------------------------------|-------------------------------------|----------------------------------|------------------------|-----------|------------------------|
| June 30, 2011 | \$ 6,526,427 | 5,072,898 | 4,540,070 | 77.7% | 69.6% | \$ 1,655,438 |
| June 30, 2012 | * | - | - | 0.00% | 0.00% | - |
| June 30, 2013 | * | - | - | 0.00% | 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

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

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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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, 2013 and 2012, 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 30, 2013.

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 & Company CPAs - An Accountancy Corporation

Charles Z. Fedak & Company, CPAs - An Accountancy Corporation
Cypress, California
September 30, 2013