

**Rossmoor/Los Alamitos Area Sewer District  
Annual Financial Report  
For the Fiscal Year Ended June 30, 2014**

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Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	20-21



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## Independent Auditor's Report

Board of Directors  
Rossmoor/Los Alamitos Area Sewer District  
Los Alamitos, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities of the Rossmoor/Los Alamitos Area Sewer District (District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

### *Auditor's Responsibility*

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

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

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Rossmoor/Los Alamitos Area Sewer District as of June 30, 2014, and the respective changes in financial position and the respective budgetary comparison for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**Rossmoor/Los Alamitos Area Sewer District**  
*Management's Discussion and Analysis*  
**For the Fiscal Year Ended June 30, 2014**

As management of the Rossmoor/Los Alamitos Area Sewer District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities and performance of the District for the fiscal year ended June 30, 2014. Please read it in conjunction with additional information that we have furnished in the accompanying basic financial statements, which follow this section.

**Financial Highlights**

- The District's net position increased 2.0%, or \$95,204 to \$4,931,136, in 2014 as a result of current year operations.
- During the year, the District's property tax revenues increased by 4.1%, or \$15,030, in 2014.
- Total revenues from all sources increased by 1.7%, or \$6,778 to \$412,906, in 2014.
- Total expenses increased 14.1% or \$39,377, due primarily to an increase in sewer repair and maintenance expenses.

**Using This Financial Report**

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities 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 Activities. This statement measures the success of the District's operations over the past year and can be used to determine the District's profitability and credit worthiness.

**Government-wide Financial Statements**

**Statement of Net Position and Statement of Activities**

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 Activities 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 used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's *net position* and changes in them. Think of the District's net position – the difference between assets and liabilities – as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors; however, such as changes in the District's property tax base to assess the *overall health* of the District.

**Rossmoor/Los Alamitos Area Sewer District**  
**Management's Discussion and Analysis, continued**  
**For the Fiscal Year Ended June 30, 2014**

A portion of the District's net position 38% or \$1,860,482 as of June 30, 2014 reflects its 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 operate the District; consequently, these assets are *not* available for future spending. At the end of fiscal year 2014, the District shows a positive balance in its unrestricted net position of \$3,070,654 that may be utilized in future years.

**Condensed Statement of Activities**

<i>Governmental Activities:</i>	<u>2014</u>	<u>2013</u>	<u>Change</u>
<b>Expenses:</b>			
Sewer services	\$ 317,702	278,325	39,377
<b>Program revenues</b>	11,227	16,060	(4,833)
<b>General revenues</b>	401,679	390,068	11,611
<b>Total revenues</b>	<u>412,906</u>	<u>406,128</u>	<u>6,778</u>
<b>Change in net position</b>	95,204	127,803	(32,599)
<b>Net position – beginning of year</b>	<u>4,835,932</u>	<u>4,708,129</u>	<u>127,803</u>
<b>Net position – end of year</b>	<u>\$ 4,931,136</u>	<u>4,835,932</u>	<u>95,204</u>

The statement of activities shows how the government's net position changes during the fiscal year. In the case of the District, net position increased by \$95,204 for the fiscal year ended June 30, 2014.

**Governmental Funds Financial Analysis**

The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, the *unreserved fund balance* may serve as a useful measure of the government's net resources for spending at the end of the fiscal year.

As of June 30, 2014, the District's General Fund reported a fund balance of \$3,070,654.

# **Basic Financial Statements**

**Rossmoor/Los Alamitos Area Sewer District**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2014,**  
*With Comparative Amounts for the Fiscal Year Ended June 30, 2013*

<i>Governmental Activities:</i>	<u>2014</u>	<u>2013</u>
<b>Expenses:</b>		
Sewer service:		
Salaries and benefits	\$ 62,440	66,203
Sewer repairs and maintenance	95,067	71,843
Facilities and maintenance	16,126	22,756
Materials and supplies	14,699	12,606
Professional/specialized services	78,681	52,414
Tax collection charge	4,581	4,043
Insurance	6,659	9,011
Depreciation expense	39,449	39,449
<b>Total expenses</b>	<u>317,702</u>	<u>278,325</u>
<b>Program revenues:</b>		
Charges for services	11,227	16,060
<b>Total program revenues</b>	<u>11,227</u>	<u>16,060</u>
<b>Net program expense</b>	<u>306,475</u>	<u>262,265</u>
<b>General revenues:</b>		
Property taxes	380,073	365,043
Interest earnings	8,042	8,958
Rental income	13,500	13,500
Other	64	2,567
<b>Total general revenues</b>	<u>401,679</u>	<u>390,068</u>
<b>Change in net position</b>	95,204	127,803
<b>Net position – beginning of year</b>	<u>4,835,932</u>	<u>4,708,129</u>
<b>Net position – end of year</b>	<u>\$ 4,931,136</u>	<u>4,835,932</u>

See accompanying notes to the basic financial statements

**Rossmoor/Los Alamitos Area Sewer District**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in**  
**Fund Balance of Governmental Type Funds to the Statement of Activities**  
**For the Fiscal Year Ended June 30, 2014**

	General Fund	Reclassifications & Eliminations	Statement of Activities
<b>Expenditures/Expenses:</b>			
Sewer service:			
Salaries and benefits	\$ 62,440	-	62,440
Sewer repairs and maintenance	95,067	-	95,067
Facilities and maintenance	16,126	-	16,126
Materials and supplies	14,699	-	14,699
Professional/specialized services	78,681	-	78,681
Tax collection charge	4,581	-	4,581
Insurance	6,659	-	6,659
Depreciation expense	-	39,449	39,449
<b>Total expenditures/expenses</b>	<b>278,253</b>	<b>39,449</b>	<b>317,702</b>
<b>Program revenues:</b>			
Charges for services – other	11,227	-	11,227
<b>Total program revenues</b>	<b>11,227</b>	<b>-</b>	<b>11,227</b>
<b>Net program expense</b>			<b>306,475</b>
<b>General revenues:</b>			
Property taxes	380,073	-	380,073
Interest earnings	8,042	-	8,042
Rental income	13,500	-	13,500
Other	64	-	64
<b>Total general revenues</b>	<b>401,679</b>	<b>-</b>	<b>401,679</b>
<b>Total revenues</b>	<b>412,906</b>	<b>-</b>	
<b>Excess (Deficiency) of revenues over (under) expenditures</b>	<b>134,653</b>	<b>(39,449)</b>	<b>-</b>
<b>Change in net position</b>	<b>-</b>	<b>95,204</b>	<b>95,204</b>
<b>Fund balance/Net position – beginning of year</b>	<b>2,936,001</b>	<b>-</b>	<b>4,708,129</b>
<b>Fund balance/Net position – end of year</b>	<b>\$ 3,070,654</b>	<b>55,755</b>	<b>4,803,333</b>

**Reconciliation:**

Net changes in fund balance of governmental fund	\$	134,653
Amounts reported for governmental activities in the statement of activities is different because:		
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation expense in the current period.		(39,449)
Change in net position of governmental activities	\$	95,204

See accompanying notes to the basic financial statements

**Rossmoor/Los Alamitos Area Sewer District**  
**Notes to the Basic Financial Statements**  
**June 30, 2014**

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

**B. Basis of Accounting and Measurement Focus, continued**

*Governmental Fund Financial Statements, continued*

**General Fund** – is a government’s primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund when necessary

**C. Assets, Liabilities and Net Position**

**1. Use of Estimates**

The preparation of 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 and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in District 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 an original maturity of three months to be cash equivalents.

**3. Investments and Investment Policy**

The District has adopted an investment policy directing the District Manager to deposit funds in financial institutions. Investments are to be made in the following areas:

- Securities of the U.S. government or its agencies
- Federal National Mortgage Association Obligations
- Obligations or participations of or issued by a Federal agency (GNMA)
- Negotiable certificates of deposit
- State of California Local Agency Investment Fund (LAIF)

LAIF is regulated by California Government Code (Code) Section 16429 and is under the management of the State of California Treasurer’s Office with oversight provided by the Local Agency Investment Advisory Board.

LAIF is carried at fair value based on the value of each participating dollar as provided by LAIF. The fair value of the District’s position in the LAIF is the same as the value of its pooled share. Investments in securities of the U.S. government or its agencies are carried at fair value based on quoted market prices. Bank balances are secured by the pledging of a pool of eligible securities to collateralize the District’s deposits with the bank in accordance with the Code.

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

**3. Property Taxes**

Property taxes attach as an enforceable lien on property as of January 1, each year. Secured property taxes are levied on July 1 and are payable in two installments, on December 10 and April 10. The County of Orange Assessor’s Office assesses all real and personal property within the County each year. The County of Orange Tax Collector’s Office bills and collects the District’s share of property taxes. The County of Orange 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.



**Rossmoor/Los Alamitos Area Sewer District**  
**Notes to the Basic Financial Statements**  
**June 30, 2014**

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

**C. Assets, Liabilities and Net Position, continued**

**8. Fund Balance**

The financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned based primarily on the extent to which the District is bound to honor constraints on how specific amounts can be spent.

- **Nonspendable fund balance** – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.
- **Restricted fund balance** – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions enabling legislation.
- **Committed fund balance** – amounts that can only be used for specific purposes determined by formal action of the District's highest level of decision-making authority (the Board of Directors) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- **Assigned fund balance** – amounts that are constrained by the District's intent to be used for specific purposes. The intent can be established at either the highest level of decision-making, or by a body or an official designated for that purpose. This is also the classification for residual funds in the District's special revenue funds.
- **Unassigned fund balance** – the residual classification for the District's general fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

The Board of Directors established, modifies or rescinds fund balance commitments and assignments by passage of an ordinance or resolution. This is done through adoption of the budget and subsequent budget amendments that occur throughout the year.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, followed by the unrestricted, committed, assigned and unassigned resources as they are needed.

***Fund Balance Policy***

The District believes that sound financial management principles require that sufficient funds be retained by the District to provide a stable financial base at all times. To retain this stable financial base, the District needs to maintain an unrestricted fund balance in its funds sufficient to fund cash flows of the District and to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature. Committed, assigned and unassigned fund balances are considered unrestricted.

The purpose of the District's fund balance policy is to maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures.

**9. Budgetary Data**

The District follows specific procedures in establishing the budgetary data reflected in the financial statements. Each July the District Manager prepares and submits an operating budget to the Board of Directors for the General and the Special Revenue Fund. Upon review and approval, the budgetary information is sent to the County of Orange for review. The basis used to prepare the budget does not differ substantially from the modified accrual basis of accounting.

**Rossmoor/Los Alamitos Area Sewer District**  
**Notes to the Basic Financial Statements**  
**June 30, 2014**

**(2) Cash and Cash Equivalents, continued**

***Interest Rate Risk***

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The longer the maturity an investment has the greater its fair value has sensitivity to changes in market interest rates. The District's investment policy follows the Code as it relates to limits on investment maturities as a means of managing exposure to fair value losses arising from increasing 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.

**(3) Capital Assets**

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

	<u>Balance 2013</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2014</u>
Non-depreciable capital assets:				
Land	\$ 9,740	-	-	9,740
Total non-depreciable capital assets	<u>9,740</u>	<u>-</u>	<u>-</u>	<u>9,740</u>
Depreciable capital assets:				
Buildings	9,740	-	-	9,740
Building improvements	8,722	-	-	8,722
Sewer lines	3,910,003	-	-	3,910,003
Total depreciable capital assets	3,928,465	-	-	3,928,465
Less: accumulated depreciation	<u>(2,038,274)</u>	<u>(39,449)</u>	<u>-</u>	<u>(2,077,723)</u>
Total depreciable capital assets, net	<u>1,890,191</u>	<u>(39,449)</u>	<u>-</u>	<u>1,850,742</u>
Total capital assets, net	<u>\$ 1,899,931</u>			<u>1,860,482</u>

**(4) Unrestricted Net Position**

Unrestricted net position at June 30, 2014, is designated as follows:

	<u>Amount</u>
Nonspendable prepaid expenses	\$ 2,257
Designated for capital projects	1,950,000
Designated for sewer operations	<u>1,118,397</u>
<b>Total unrestricted net position</b>	<u>\$ 3,070,654</u>

**Rossmoor/Los Alamitos Area Sewer District**  
**Notes to the Basic Financial Statements**  
**June 30, 2014**

**(7) Contingencies**

*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.

**(8) Subsequent Events**

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

**Rossmoor/Los Alamitos Area Sewer District  
Budgetary Comparison Schedule – General Fund  
For the Fiscal Year Ended June 30, 2014**

	Adopted Original Budget	Board Approved Changes	Revised Budget	Actual Budgetary Basis	Variance Positive (Negative)
<b>Expenditures/Expenses:</b>					
Sewer service:					
Salaries and benefits	\$ 67,635	-	67,635	62,440	5,195
Sewer repairs and maintenance	175,000	-	175,000	95,067	79,933
Facilities and maintenance	31,275	-	31,275	16,126	15,149
Materials and supplies	17,350	-	17,350	14,699	2,651
Professional/specialized services	33,500	-	33,500	78,681	(45,181)
Insurance	5,500	-	5,500	6,659	(1,159)
Tax collection charge	-	-	-	4,581	(4,581)
<b>Total expenditures/expenses</b>	<b>330,260</b>	<b>-</b>	<b>330,260</b>	<b>278,253</b>	<b>52,007</b>
<b>Program revenues:</b>					
Charges for services	12,000	-	12,000	11,227	(773)
<b>Total program revenues</b>	<b>12,000</b>	<b>-</b>	<b>12,000</b>	<b>11,227</b>	<b>(773)</b>
<b>General revenues:</b>					
Property taxes	342,544	-	342,544	380,073	37,529
Interest earnings	7,700	-	7,700	8,042	342
Rental income	13,500	-	13,500	13,500	-
Other	1,000	-	1,000	64	(936)
<b>Total general revenues</b>	<b>364,744</b>	<b>-</b>	<b>364,744</b>	<b>401,679</b>	<b>36,935</b>
<b>Total revenues</b>	<b>376,744</b>	<b>-</b>	<b>376,744</b>	<b>412,906</b>	<b>36,162</b>
<b>Net change in fund balance</b>	<b>46,484</b>	<b>-</b>	<b>46,484</b>	<b>134,653</b>	<b>(15,845)</b>
Fund balance – beginning of year	2,936,001		2,936,001	2,936,001	
Fund balance – end of year	\$ 2,982,485		2,982,485	3,070,654	

**Notes to Required Supplementary Information**

**(1) Budgets and Budgetary Data**

The District follows specific procedures in establishing the budgetary data reflected in the financial statements. Each year the District's Manager prepares and submits an operating budget to the Board of Directors for the General Fund no later than June of each year. The basis used to prepare the budget does not differ substantially from the modified accrual basis of accounting. The adopted budget becomes operative on July 1. The Board of Directors must approve all supplemental appropriations to the budget and transfers between major accounts. The District's annual budget is presented as a balanced budget (inflows and reserves equal outflows and reserves) adopted for the General Fund at the detailed expenditure-type level.

The District presents a comparison of the annual budget to actual results for the General Fund at the functional expenditure-type major object level for financial reporting purposes. The budgeted expenditure amounts represent the adopted budget. No Board approved supplemental appropriations were made. The budgeted revenue amounts represent the adopted budget as originally approved.



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## **Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

Board of Directors  
Rossmoor/Los Alamitos Area Sewer District  
Los Alamitos, 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 Rossmoor/Los Alamitos Area Sewer District (District) as of and for the year ended June 30, 2014, 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, 2014.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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 audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.