

Rossmoor/Los Alamitos Area Sewer District

Annual Financial Report

For the Fiscal Year Ended June 30, 2016

**Rossmoor/Los Alamitos Area Sewer District
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Financial Section

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, 2016, 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; and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 aspects, the respective financial position of the Rossmoor/Los Alamitos Area Sewer District as of June 30, 2016, 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.

Independent Auditor's Report, continued

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 6 and the required supplementary information on page 19 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 the 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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 a report dated October 28, 2016, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 to not provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit. The report can be found on pages 20 and 21.



Robert Huff, CPA
Long Beach, California
October 28, 2016

Rossmoor/Los Alamitos Area Sewer District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016

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, 2016. 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 decreased 13.52% or \$663,891 to \$ 4,245,059 in 2016 as a result of current year operations.
- The District's total revenues increased 6.9%, or \$29,666, in 2016 due primarily to an increase in property taxes.
- The District's total expenses increased 147.9% or \$671,371, in 2016 due primarily to an increase in sewer repairs and maintenance.

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 indicators 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, 2016

Governmental Funds Financial Statements

Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

The focus of governmental funds is narrower than that of the government-wide financial statements therefore it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's budgetary information and compliance.

Government-wide Financial Analysis

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 exceeded liabilities by \$4,245,059, as of June 30, 2016.

Condensed Statement of Net Position

	<u>2016</u>	<u>2015</u>	<u>Change</u>
Assets			
Current assets	\$ 2,704,231	\$ 3,110,188	\$ (405,957)
Capital assets	1,781,584	1,821,033	(39,449)
Total assets	<u>4,485,815</u>	<u>4,931,221</u>	<u>(445,406)</u>
Liabilities			
Current liabilities	<u>240,756</u>	<u>22,271</u>	<u>218,485</u>
Net position			
Net investment in capital assets	1,781,584	1,821,033	(39,449)
Unrestricted	<u>2,463,475</u>	<u>3,087,917</u>	<u>(624,442)</u>
Total net position	<u>\$ 4,245,059</u>	<u>\$ 4,908,950</u>	<u>\$ (663,891)</u>

**Rossmoor/Los Alamitos Area Sewer District
Management's Discussion and Analysis, continued
For the Fiscal Year Ended June 30, 2016**

Government-wide Financial Analysis, continued

A portion of the District's net position, 42% or \$1,781,584, as of June 30, 2016 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 the fiscal year 2016, the District shows a positive balance in its unrestricted net position of \$2,463,475 that may be utilized in future years.

Condensed Statement of Activities

	<u>2016</u>	<u>2015</u>	<u>Change</u>
<i>Government Activities:</i>			
Expenses:			
Sewer Services	\$ 1,125,091	\$ 453,720	\$ 671,371
Program revenues	15,752	9,160	6,592
General revenues	445,448	422,374	23,074
Total revenues	461,200	431,534	29,666
Change in net position	(663,891)	(22,186)	(641,705)
Net position - beginning of year	4,908,950	4,931,136	(22,186)
Net position - end of year	<u>\$ 4,245,059</u>	<u>\$ 4,908,950</u>	<u>\$ (663,891)</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 decreased by \$663,891 for the fiscal year ended June 30, 2016.

Government 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, 2016, the District's General Fund reported a fund balance of \$2,463,475.

**Rossmoor/Los Alamitos Area Sewer District
Management's Discussion and Analysis, continued
For the Fiscal Year Ended June 30, 2016**

Capital Asset Administration

At the end of fiscal year 2016, the District's investment in capital assets amounted to \$1,781,584 (net of accumulated depreciation). This investment in capital assets includes land, building and sewer lines.

	<u>2015</u>	<u>Additions/ Deletions</u>	<u>2016</u>
Non-depreciable capital assets			
Land	\$ 9,740	-	\$ 9,740
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>(2,117,172)</u>	<u>(39,449)</u>	<u>(2,156,621)</u>
Total depreciable capital assets	<u>1,811,293</u>	<u>(39,449)</u>	<u>1,771,844</u>
Total capital assets, net	<u>\$ 1,821,033</u>		<u>\$ 1,781,584</u>

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 in terms of past, present and future.

Requests for Information

The District's basic financial statements are designed to present users with a general overview of the District's finances and to demonstrate the District's accountability. If you have any questions about the report or need additional information, please contact the District Manager, Susan Bell, at the Rossmoor/Los Alamitos Area Sewer District, 3243 Katella Avenue, Los Alamitos, CA 90720.

Basic Financial Statements

Rossmoor/Los Alamitos Area Sewer District
Statements of Net Position
June 30, 2016
With Comparative Amounts for June 30, 2015

	<u>2016</u>	<u>2015</u>
Assets		
Cash and cash equivalents (Note 2)	\$ 2,318,253	\$ 2,573,292
Certificate-of-deposit (Note 2)	374,441	525,450
Accrued interest receivable	2,050	1,061
Accounts receivable - property taxes	3,420	3,961
Accounts receivable - other	3,775	3,775
Prepaid expense	2,292	2,649
Capital assets, net (Note 3)	<u>1,781,584</u>	<u>1,821,033</u>
Total assets	<u>4,485,815</u>	<u>4,931,221</u>
Liabilities		
Accounts payable and accrued expenses	235,307	17,478
Accrued salaries and wages	<u>5,449</u>	<u>4,793</u>
Total liabilities	<u>240,756</u>	<u>22,271</u>
Net position		
Net investment in capital assets	1,781,584	1,821,033
Unrestricted (Note 4)	<u>2,463,475</u>	<u>3,087,917</u>
Total net position	<u>\$ 4,245,059</u>	<u>\$ 4,908,950</u>

See accompanying notes to the basic financial statements

Rossmoor/Los Alamitos Area Sewer District
Statements of Activities
For the Fiscal Year Ended June 30, 2016
With Comparative Amounts for the Fiscal Year Ended June 30, 2015

<i>Governmental Activities</i>	<u>2016</u>	<u>2015</u>
Expenses:		
Sewer Service		
Salaries and benefits	\$ 62,941	\$ 64,098
Sewer repairs and maintenance	819,782	124,380
Facilities and maintenance	21,682	16,908
Materials and supplies	14,715	14,538
Professional/specialized services	156,528	185,308
Insurance	9,994	9,039
Depreciation expense	<u>39,449</u>	<u>39,449</u>
Total expenses	<u>1,125,091</u>	<u>453,720</u>
Program revenues:		
Charges for services	<u>15,752</u>	<u>9,160</u>
Total program revenues	<u>15,752</u>	<u>9,160</u>
Net program expense	<u>1,109,339</u>	<u>444,560</u>
General revenues:		
Property taxes	422,973	399,386
Interest earnings	8,945	9,161
Rental income	13,500	13,750
Other	<u>30</u>	<u>77</u>
Total general revenues	<u>445,448</u>	<u>422,374</u>
Change in net position	(663,891)	(22,186)
Net position - beginning of year	<u>4,908,950</u>	<u>4,931,136</u>
Net position - end of year	<u><u>\$ 4,245,059</u></u>	<u><u>\$ 4,908,950</u></u>

See accompanying notes to the basic financial statements

Rossmoor/Los Alamitos Area Sewer District
Reconciliation of the Balance Sheet of Governmental
Type Funds to the Statement of Net Position
June 30, 2016

	General Fund	Reclassifications & Eliminations	Statement of Net position
Assets			
Cash and cash equivalents	\$ 2,318,253	\$ -	\$ 2,318,253
Certificates-of-deposit	374,441	-	374,441
Accrued interest receivable	2,050	-	2,050
Accounts receivable - property taxes	3,420	-	3,420
Accounts receivable -other	3,775	-	3,775
Prepaid insurance	2,292	-	2,292
Capital assets, net	-	1,781,584	1,781,584
Total assets	\$ 2,704,231	\$ 1,781,584	\$ 4,485,815
Liabilities			
Accounts payable and accrued expenses	\$ 235,307	-	\$ 235,307
Accrued salaries and wages	5,449	-	5,449
Total liabilities	240,756	-	240,756
Fund balance (note 5)			
Nonspendable	2,292	(2,292)	-
Assigned	1,950,000	(1,950,000)	-
Unassigned	511,183	(511,183)	-
Total fund balance	2,463,475	(2,463,475)	-
Total liabilities and fund balance	\$ 2,704,231		
Net position			
Net investment in capital assets		1,781,584	1,781,584
Unassigned		2,463,475	2,463,475
Total net position		\$ 4,245,059	\$ 4,245,059
Reconciliation			
Fund balance of governmental funds			\$ 2,463,475
Amounts reported for governmental activities in the statement of net position is different because:			
Capital assets used in governmental activities are not current financial resources, and, therefore, are not reported in the governmental funds balance sheet.			1,781,584
Net position of governmental activities			\$ 4,245,059

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, 2016

	<u>General Fund</u>	<u>Reclassifications & Eliminations</u>	<u>Statement of Activities</u>
Expenditures/Expenses:			
Sewer service			
Salaries and benefits	\$ 62,941	-	\$ 62,941
Sewer repairs and maintenance	819,782	-	819,782
Facilities and maintenance	21,682	-	21,682
Materials and supplies	14,715	-	14,715
Professional/specialized services	156,528	-	156,528
Insurance	9,994	-	9,994
Depreciation expense	-	39,449	39,449
Total expenditures/expenses	<u>1,085,642</u>	<u>39,449</u>	<u>1,125,091</u>
Program revenues:			
Charges for services - other	<u>15,752</u>	-	<u>15,752</u>
Total program revenues	<u>15,752</u>	-	<u>15,752</u>
Net program expense			<u>1,109,339</u>
General revenues:			
Property taxes	422,973	-	422,973
Interest earnings	8,945	-	8,945
Rental income	13,500	-	13,500
Other	<u>30</u>	-	<u>30</u>
Total general revenues	<u>445,448</u>	-	<u>445,448</u>
Total revenues	<u>461,200</u>	-	
Excess (Deficiency) of revenues over (under) expenditures	(624,442)	624,442	
Change in net position		(663,891)	(663,891)
Fund balance/Net position - beginning of year	<u>3,087,917</u>	-	<u>4,245,059</u>
Fund balance/Net position - end of year	<u>\$ 2,463,475</u>	-	<u>\$ 3,581,168</u>
Reconciliation:			
Net changes in fund balance of governmental fund			\$ (624,442)
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 depreciation expense in the current period			<u>(39,449)</u>
Change in net position of governmental activities			<u>\$ (663,891)</u>

See accompanying notes to the basic financial statements

Rossmoor/Los Alamitos Area Sewer District
Notes to the Basic Financial Statements
June 30, 2016

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Rossmoor/Los Alamitos Area Sewer District (District) was founded in 1952 to provide wastewater collection and disposal in West Orange County. Construction activities at the District commenced in 1954, when a bond issue of \$300,000 was sold to construct sewer facilities throughout the District. The bonds issued in 1954 have been retired and are no longer outstanding. Major annexations were then made in 1954 and in 1960, which added the Rossmoor residential development and nearby Naval base. Today the District services over 8,000 sewer connections through a 54-mile wastewater system that covers 4,000 acres.

B. Basis of Accounting and Measurement Focus

The *basic financial statements* of the District are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

Governmental-wide Financial Statements

These statements are presented on an *economic resources* measurement focus and the accrual basis of accounting. Accordingly, all of the District's assets and liabilities, including capital assets, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which the liability is incurred. The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. The types of transactions reported as program revenues for the District are to be reported in three categories, if applicable: 1) charges for services, 2) operating grants and contributions, and, 3) capital grants and contributions. Charges for services include revenues from customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function. Grant and contributions include revenues restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Governmental Fund Financial Statements

These statements include a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balances for all major governmental funds. Incorporated into these statements is a schedule to reconcile and explain the differences in net position as presented in these statements to the net position presented in the Government-wide Financial Statements. The District has presented its General Fund, as its major fund, in this statement to meet the qualifications of GASB Statement No. 34.

Governmental funds are accounted for on a spending or *current financial resources* measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under modified accrual basis of accounting, revenues are recognized in the accounting period in which they become measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60-days after year-end) are recognized when due. The primary sources susceptible to accrual for the District are property tax, interest earnings, investment revenue and operating and capital grant revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. However, exceptions to this rule include principal and interest on debt, which are recognized when due. The District reports the following major governmental funds:

Rossmoor/Los Alamitos Area Sewer District
Notes to the Basic Financial Statements, continued
June 30, 2016

(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 process. 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.

Rossmoor/Los Alamitos Area Sewer District
Notes to the Basic Financial Statements, continued
June 30, 2016

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

C. Assets, Liabilities and Net Position, continued

4. 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 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.

5. Prepaid Expenses

Certain payments to vendors reflect costs or deposits applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

6. Capital Assets

Capital assets are recorded in the government-wide financial statements. Included in capital assets are land, building, equipment and sewer lines. District policy has set the capitalization threshold for reporting capital assets, other than infrastructure assets, at \$1,000. Infrastructure and sewer lines assets have a capitalization threshold of \$25,000. Donated assets are recorded at estimated fair market value at the date of donation. Capital outlay is recorded as expenditures of the General Fund and as assets in the government-wide financial statements to the extent the District's capitalization threshold is met. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

- Buildings – 50 years
- Equipment – 10 years
- Infrastructure – 25 to 100 years
- Sewer lines – 100 years

7. Compensated Absences

District's policy allows vacation pay of ten (10) working days of employment. Vacation time may not be accumulated from year to year. All unused vacation time shall be paid out at the end of the year during which it is earned (anniversary date). Sick leave is granted at a rate of 10 days per calendar year and may be used for sickness, disability, or personal reasons. Sick leave is not accumulated beyond the year in which it is earned. Employees are compensated for any unused sick leave at the end of the year in which it is earned.

8. Net Position

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

- **Net Investment in Capital Assets** – This component of net position consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt against the acquisition, construction or improvement of those assets.

Rossmoor/Los Alamitos Area Sewer District
Notes to the Basic Financial Statements, continued
June 30, 2016

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

C. Assets, Liabilities and Net Position, continued

8. Net Position, continued

- **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 is the net amount of the assets that do not meet the definition of *restricted* or *net investment in capital assets*.

9. Fund Balance

The financial statements, government 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 all other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amount 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.

Rossmoor/Los Alamitos Area Sewer District
Notes to the Basic Financial Statements, continued
June 30, 2016

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

C. Assets, Liabilities and Net Position, continued

9. Fund Balance, continued

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.

10. 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 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.

(2) Cash and Cash Equivalents

Cash and cash equivalents as of June 30, 2016 consist of the following:

Petty cash	\$ 100
Deposits held with financial institutions	811,197
Deposits held with Local Agency Investment Fund (LAIF)	<u>1,506,956</u>
Cash and cash equivalents	2,318,253
 Certificate of deposit - with a rate of 0.5%, due 7/15/16	 <u>374,441</u>
Total	<u><u>\$ 2,692,694</u></u>

Rossmoor/Los Alamitos Area Sewer District
Notes to the Basic Financial Statements, continued
June 30, 2016

(2) Cash and Cash Equivalents, continued

Authorized Deposits and Investments

Under provisions of the District's investment policy, and in accordance with Section 53601 of the California Government Code, the District may invest in certain types of investments as listed in Note 1.C.3 to the financial statements.

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). Market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured deposits. Of the District's bank balances, up to \$250,000 is federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

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

Rossmoor/Los Alamitos Area Sewer District
Notes to the Basic Financial Statements, continued
June 30, 2016

(3) Capital Assets

Changes in capital assets at June 30, 2016 were as follows:

	<u>2015</u>	<u>Additions/ Deletions</u>	<u>2016</u>
Non-depreciable capital assets			
Land	\$ 9,740	\$ -	\$ 9,740
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>(2,117,172)</u>	<u>(39,449)</u>	<u>(2,156,621)</u>
Total depreciable capital assets	<u>1,811,293</u>	<u>(39,449)</u>	<u>1,771,844</u>
Total capital assets, net	<u>\$ 1,821,033</u>	<u>\$ (39,449)</u>	<u>\$ 1,781,584</u>

(4) Unrestricted Net Position and Fund Balance

Unrestricted net position at June 30, 2016, is designated as follows:

Nonspendable prepaid expenses	\$ 2,292
Designated for capital projects	1,950,000
Designated for sewer operations	<u>511,183</u>
Total unrestricted net position	<u>\$ 2,463,475</u>

(5) Fund Balance

Fund balances are presented in the following categories: nonspendable, restricted, committed, assigned, and unassigned (see Note 1. C.9 for a description of these categories). A detailed schedule of fund balances and their funding composition at June 30, 2016 is as follows:

Nonspendable - Prepaid expenses	\$ 2,292
Assigned - Capital projects reserved	1,950,000
Unassigned - Sewer system operations	<u>511,183</u>
Total fund balance	<u>\$ 2,463,475</u>

Rossmoor/Los Alamitos Area Sewer District
Notes to the Basic Financial Statements, continued
June 30, 2016

(6) 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, as a member of the Special District Risk Management Authority (SDRMA), has purchased various insurance policies to manage the potential liabilities that may occur from the previously named sources. SDRMA's purpose is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2016, the District participated in the liability and property programs of the SDRMA as follows:

- General and auto liability, public officials and employees' errors and omissions and employment practices liability: Total risk financing limits of \$2.5 million, combined single limit at \$2.5 million per occurrence.
- Employee dishonesty coverage up to \$1,000,000 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, up to \$1 billion per occurrence.
- Boiler and machinery coverage for the replacement cost up to \$100 million per occurrence.
- Public officials personal liability up to \$500,000 each occurrence, with an annual aggregate of \$500,000 per each elected/appointed official to which this coverage applies, subject to the terms, conditions and exclusions as provided in the Memorandum of Coverage.

The District maintains workers' compensation coverage and employers' liability coverage in accordance with the statutory requirements of the State of California.

(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, 2016, have been evaluated for possible adjustment to the financial statements or disclosure as of October 28, 2016, 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.

Required Supplementary Information

**Rossmoor/Los Alamitos Area Sewer District
Budgetary Comparison Schedule – General Fund
For the Fiscal Year Ended June 30, 2016**

	Adopted Original Budget	Actual Budgetary Basis	Variance Positive (Negative)
Expenditures/Expenses			
Sewer service			
Salaries and benefits	\$ 69,213	\$ 62,941	\$ 6,272
Sewer repairs and maintenance	1,215,000	819,782	395,218
Facilities and maintenance	18,800	21,682	(2,882)
Materials and supplies	16,550	14,715	1,835
Professional/specialized services	139,500	156,528	(17,028)
Insurance	6,200	9,994	(3,794)
Total expenditures/expenses	<u>1,465,263</u>	<u>1,085,642</u>	<u>379,621</u>
Program revenues			
Charges for services	<u>11,500</u>	<u>15,752</u>	<u>4,252</u>
General revenues			
Property taxes	401,986	422,973	20,987
Interest earnings	8,400	8,945	545
Rental income	13,500	13,500	-
Other	<u>1,000</u>	<u>30</u>	<u>(970)</u>
Total general revenues	<u>424,886</u>	<u>445,448</u>	<u>20,562</u>
Total revenues	<u>436,386</u>	<u>461,200</u>	<u>24,814</u>
Net changes in fund balance	(1,028,877)	(624,442)	<u>\$ 404,435</u>
Fund balance - beginning of year	<u>3,087,917</u>	<u>3,087,917</u>	
Fund balance - end of year	<u>\$ 2,059,040</u>	<u>\$ 2,463,475</u>	

Note to Required Supplementary Information

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.

Report on Internal Controls and Compliance

**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, 2016, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated October 28, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing 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.

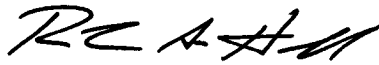
Compliance and Other Matters

As a 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, contract, 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*.

**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***

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 entity's internal control or compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Robert Huff, CPA
Long Beach, California
October 28, 2016