

SOUTH COAST WATER DISTRICT

Basic Financial Statements

For the Year Ended June 30, 2014
(with Independent Auditors' Report Thereon)

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SOUTH COAST WATER DISTRICT

Basic Financial Statements

For the Year Ended June 30, 2014

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INDEPENDENT AUDITORS' REPORT

Board of Directors
South Coast Water District
Laguna Beach, California

Report on the Financial Statements

We have audited the financial statements of the South Coast Water District (the District) as of and for the year ended June 30, 2014, and the related notes to the basic 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.

Auditors' Responsibility

Our responsibility is to express an opinion 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, 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 auditors' 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 auditors consider internal control relevant to the District'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 District'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 basic financial statements referred to above present fairly, in all material respects, the financial position of the South Coast Water District as of June 30, 2014 and the changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America, as well as the accounting systems prescribed by the State Controller's Office and State Regulations governing Special Districts.

Other Matters:

Summarized Comparative Information

We have previously audited the South Coast Water District's 2013 financial statements, and our report dated September 30, 2013, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on the supplementary information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2014, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

White Nelson Diehl Evans LLP

Irvine, California
September 10, 2014

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SOUTH COAST WATER DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS

June 30, 2014

The intent of the management's discussion and analysis is to provide highlights of the South Coast Water District's (the District) financial activities for the fiscal year ended June 30, 2014. Readers are encouraged to read this section in conjunction with the accompanying financial statements.

The District's Operations - an Overview

The District operates under the authority of the California Water Code and engages in various activities classified as "proprietary". These activities are accounted for much like that of a private business and use the full accrual method of accounting for transactions. The major activities include; acquisition of water from the Metropolitan Water District through Municipal Water District of Orange County; sale and delivery of water; collection, treatment and disposal of wastewater; sales and delivery of recycled water. The District also owns and operates a fleet of vehicles and other rolling stock to support the various operating activities.

Basic Financial Statements

In accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, the District's basic financial statements include a statement of net position, statement of revenues, expenses and changes in net position, statement of cash flows, statement of fiduciary net position, and a statement of changes in fiduciary net position.

The statement of net position includes the District's assets, liabilities and deferred inflows and provides information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). This statement also provides the basis of evaluating the capital structure of the District and assessing the overall liquidity and financial flexibility. The difference between the assets, liabilities and deferred inflows is shown as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of revenues, expenses and changes in net position accounts for the current year's revenues and expenses. This statement measures the success of the District's operations over the past year and determines whether the District has recovered its costs through user fees and other charges.

The statement of cash flows reports cash receipts, cash disbursements, and net changes in cash resulting from operations and investments during the reporting period.

The statement of fiduciary net position is used to account for resources held for the benefit of the Joint Regional Water Supply System (JRWSS). This statement is not reflected in the District's statement of net position because the resources of the JRWSS are not available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

SOUTH COAST WATER DISTRICT

MANAGEMENT'S DISCUSSION & ANALYSIS
(CONTINUED)

June 30, 2014

Basic Financial Statements (Continued)

The statement of changes in fiduciary net position reports the current year's increases and decreases of JRWSS' net assets.

The notes to the basic financial statements provide a description of the accounting policies used to prepare the financial statements and present material disclosures required by Generally Accepted Accounting Principles (GAAP) that are not otherwise present in the financial statements.

Changes in the Financial Condition of the District

**Statements of Net Position
June 30, 2014 and 2013**

| | 2013/14 | 2012/13 | Increase/(Decrease) % | |
|----------------------------------|----------------------|-----------------------|-----------------------|--------|
| | | | Amount | Change |
| Assets | | | | |
| Current assets | \$ 66,760,139 | \$ 63,144,117 | \$ 3,616,022 | 5.7% |
| Capital assets, net | 138,716,648 | 134,750,686 | 3,965,962 | 2.9% |
| Other assets | <u>8,784,613</u> | <u>9,114,558</u> | <u>(329,945)</u> | -3.6% |
| Total assets | <u>214,261,400</u> | <u>207,009,361</u> | <u>7,252,039</u> | 3.5% |
| Liabilities | | | | |
| Current liabilities | 6,483,160 | 4,982,384 | 1,500,776 | 30.1% |
| Other liabilities | 706,034 | 707,116 | (1,082) | -0.2% |
| Long-term debt outstanding | <u>37,243,581</u> | <u>39,031,133</u> | <u>(1,787,552)</u> | -4.6% |
| Total liabilities | <u>44,432,775</u> | <u>44,720,633</u> | <u>(287,858)</u> | -0.6% |
| Deferred Inflows | | | | |
| Deferred amount of refunding | <u>573,331</u> | <u>609,913</u> | <u>(36,582)</u> | -6.0% |
| Net Position | | | | |
| Net investment in capital assets | 100,748,648 | 101,642,108 | (893,460) | -0.9% |
| Unrestricted | <u>68,506,646</u> | <u>60,036,707</u> | <u>8,469,939</u> | 14.1% |
| Total Net Position | <u>\$169,255,294</u> | <u>\$ 161,678,815</u> | <u>\$ 7,576,479</u> | 4.7% |

SOUTH COAST WATER DISTRICT

MANAGEMENT'S DISCUSSION & ANALYSIS (CONTINUED)

June 30, 2014

Changes in the Financial Condition of the District (Continued)

Overall the financial position of the District has improved for the fiscal year ended June 30, 2014. Assets exceeded liabilities and deferred inflows by \$169,255,294 at the close of the year, an increase of \$7,576,479.

The following denotes explanations for some of the major changes between fiscal years, as shown in the table above:

Current assets increased by \$3.6 million primarily due to an increase in the District's cash and investments. This is due to the District being reimbursed by funds from the 2010A and 2010B bond issuances for costs expended on designated capital projects.

Capital assets increased by \$4.0 million primarily due to a decrease in construction in progress of \$0.7 million; an increase in operating assets being added to the system totaling \$11.1 million; and an offset of depreciation expense net deleted assets totaling \$6.4 million.

Other assets decreased by \$0.3 million primarily due to a decrease in the District's investment in joint venture and a decrease in the prepaid PERS contribution.

Current liabilities increased by \$1.5 million primarily due to an increase of \$1.4 million in accounts payable and an overall increase of \$0.1 million in the other current liability categories.

Long-term debt outstanding decreased by \$1.8 million primarily due to debt payments that are due in the 2014/2015 year. Also see Note 5 to the basic financial statements regarding debt issuances and outstanding balances.

By far, the largest portion of the District's net position (59.5%) represents its investment in capital assets. These capital assets are used to provide services to its customers and are not available for future spending.

The District's net position increased by \$7.6 million, or 4.7% over the prior year. This can be attributed to net non-operating revenue of \$5.9 million; a gain from operations of \$0.4 and contributed capital of \$1.3 million.

SOUTH COAST WATER DISTRICT

MANAGEMENT'S DISCUSSION & ANALYSIS
(CONTINUED)

June 30, 2014

Changes in the Financial Condition of the District (Continued)

**Statements of
Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended June 30, 2014 and 2013**

| | 2013/14 | | 2012/13 | | Increase/(Decrease) | |
|--|-------------------|---------------|-------------------|---------------|---------------------|--------------|
| | Amount | % of Total | Amount | % of Total | Amount | % Change |
| Operating revenues: | | | | | | |
| Water sales | \$17,439,450 | 55.7% | \$16,449,127 | 54.5% | \$990,323 | 6.0% |
| Sewer service charges | 12,210,786 | 39.0% | 11,836,935 | 41.2% | 373,851 | 3.2% |
| Recycled water | 1,411,162 | 4.5% | 1,168,678 | 3.5% | 242,484 | 20.7% |
| Recreation facilities | 261,269 | 0.8% | 193,791 | 0.8% | 67,478 | 34.8% |
| Total operating revenues | 31,322,667 | 100.0% | 29,648,531 | 100.0% | 1,674,136 | 5.6% |
| Non-operating revenues: | | | | | | |
| Property taxes - general and bond levy | 5,376,662 | 76.2% | 5,328,828 | 77.2% | 47,834 | 0.9% |
| Connection fees | 521,160 | 7.4% | 138,450 | 1.7% | 382,710 | 276.4% |
| Standby charges | 9,141 | 0.1% | 11,456 | 0.1% | (2,315) | -20.2% |
| Investment income | 115,022 | 1.6% | 140,586 | 2.2% | (25,564) | -18.2% |
| Other revenues | 516,430 | 7.3% | 584,798 | 9.2% | (68,368) | -11.7% |
| Rental income | 638,688 | 9.0% | 595,759 | 10.7% | 42,929 | 7.2% |
| Gain on disposal of capital assets | 34,869 | 0.5% | 13,492 | 0.1% | 21,377 | 158.4% |
| Share of joint venture income (expenses) | (153,024) | -2.1% | (538,699) | -1.2% | 385,675 | 71.6% |
| Total non-operating revenues | 7,058,948 | 100.0% | 6,274,670 | 100.0% | 784,278 | 12.5% |
| Total Revenues | 38,381,615 | | 35,923,201 | | 2,458,414 | 6.8% |
| Operating expenses: | | | | | | |
| Source of supply | 6,172,350 | 20.0% | 5,446,549 | 17.7% | 725,801 | 13.3% |
| Groundwater recovery facility | 565,177 | 1.8% | 480,325 | 1.6% | 84,852 | 17.7% |
| Recycled water | 716,697 | 2.3% | 624,700 | 1.9% | 91,997 | 14.7% |
| Pumping expense | 1,067,834 | 3.4% | 1,184,480 | 3.5% | (116,646) | -9.8% |
| Sewer treatment plant | 2,125,949 | 6.9% | 2,349,903 | 7.9% | (223,954) | -9.5% |
| Transmission and distribution | 3,861,885 | 12.5% | 3,963,150 | 13.0% | (101,265) | -2.6% |
| Recreation facilities | 256,403 | 0.8% | 289,591 | 0.9% | (33,188) | -11.5% |
| General and administrative | 9,083,167 | 29.4% | 8,995,989 | 29.4% | 87,178 | 1.0% |
| Depreciation | 7,077,400 | 22.9% | 7,443,391 | 24.1% | (365,991) | -4.9% |
| Total operating expenses | 30,926,862 | 100.0% | 30,778,078 | 100.0% | 148,784 | 0.5% |

SOUTH COAST WATER DISTRICT

MANAGEMENT'S DISCUSSION & ANALYSIS
(CONTINUED)

June 30, 2014

| | 2013/14 | | 2012/13 | | Increase/(Decrease) | |
|--|-----------------------------|------------|-----------------------------|------------|---------------------------|----------|
| | Amount | % of Total | Amount | % of Total | Amount | % Change |
| Non-operating expenses: | | | | | | |
| Interest - certificates of participation | \$ 788,860 | 65.9% | \$ 1,039,191 | 62.5% | \$ (250,331) | -24.1% |
| Interest – bond | 42,655 | 3.6% | 58,555 | 4.4% | (15,900) | -27.2% |
| Other expenses | 365,817 | 30.5% | 108,731 | 33.1% | 257,086 | 236.4% |
| Total non-operating expenses | <u>1,197,332</u> | 100.0% | <u>1,206,477</u> | 100.0% | <u>(9,145)</u> | -0.8% |
| Total Expenses | <u>32,124,194</u> | | <u>31,984,555</u> | | <u>139,639</u> | 0.4% |
| Income before contributions | 6,257,421 | | 3,938,646 | | 2,318,775 | 58.9% |
| Capital contributions | <u>1,319,058</u> | | <u>67,649</u> | | <u>1,251,409</u> | 1849.9% |
| Change in net position | 7,576,479 | | 4,006,295 | | 3,570,184 | 89.1% |
| Net position at beginning of year, as restated | <u>161,678,815</u> | | <u>157,672,520</u> | | <u>4,006,295</u> | 2.5% |
| Net position at end of year | <u><u>\$169,255,294</u></u> | | <u><u>\$161,678,815</u></u> | | <u><u>\$7,576,479</u></u> | 4.7% |

The following denotes explanations for some of the major changes between fiscal years as shown in the table on the previous page.

Revenues - Combined revenues for the fiscal year totaled \$38,381,615 compared to a prior year of \$35,923,201. This is an increase of approximately 6.8%. The table at the bottom of page 8 presents a comparison of revenues by major source for the two fiscal years 2013/14 and 2012/13.

Expenses - Combined expenses for the fiscal year totaled \$32,124,194 compared to a prior year of \$31,984,555. This is an increase of approximately 0.4%. The table on page 8 presents a comparison of expenses by category for the two fiscal years 2013/14 and 2012/13.

Operating Revenues - Total operating revenues increased this year by \$1.7 million (5.6%) over the previous year's total to end at \$31.3 million. This is primarily attributed to an increase in sales for the fiscal year combined with a rate increase that was effective August 1, 2013.

Water Sales – Potable water sales increased this year by \$1.0 million (6.0%) over the previous year's total to end at \$17.4 million. This is primarily attributed to the rate increase that was effective August 1, 2013 as well as increased consumption during the year.

SOUTH COAST WATER DISTRICT

MANAGEMENT'S DISCUSSION & ANALYSIS
(CONTINUED)

June 30, 2014

Changes in the Financial Condition of the District (Continued)

Recycled Water Sales – Recycled water sales increased this year by \$0.2 million (20.7%) over the previous year's total to end at \$1.4 million. This is primarily attributed to new customers being added to use the recycled water system resulting in an increase in recycled water sales.

Connection Fees – Connection fees increased this year by \$0.4 million (276.4%) over the previous year's total to end at \$0.5 million. This is primarily attributed to an increase in development at the Headlands Reserve LLP this year.

Source of Supply - Source of supply costs increased this year by \$0.7 million (13.3%) over the previous year's total to end at \$6.2 million. This is primarily attributed to the \$43 per acre foot increase in the cost of water by Metropolitan Water District that was effective January 1, 2014 along with an increase in the amount of water the District purchased this year.

Recycled Water – Recycled water costs increased this year by \$0.1 million (14.7%) over the previous year's total to end at \$0.7 million. This is primarily attributed to increased recycled water sales due to new customers added to the recycled water system during the year.

Other Non-operating Expenses - Other non-operating expenses increased by \$0.3 million (236.4%) over the previous year's total to end at \$0.4 million. This is due to the write off of project costs out of the construction in process account during the fiscal year.

Capital Contributions - Capital contributions for the 2013/14 fiscal year totaled \$1.3 million. These are facilities either built by developers and/or funded by developers which are turned over to the District to operate and maintain.

Net Position

The financial condition of the District has improved from the previous year. The District's net position increased by \$7,576,479 to \$169,255,294. This is a 4.7% increase over the prior year and can be illustrated from the table on page 6 that compares the various categories of assets, liabilities, deferred inflows and net position for the two fiscal years 2013/14 and 2012/13.

SOUTH COAST WATER DISTRICT

MANAGEMENT'S DISCUSSION & ANALYSIS
(CONTINUED)

June 30, 2014

Changes in the Financial Condition of the District (Continued)

Capital Expenditures

During the year, expenditures in capital projects totaled \$10.4 million. Three major projects currently underway and where expenditures in the current fiscal year exceeded \$0.2 million include the Sewer Tunnel Permanent Repair project for \$0.8 million, SOCWA Coastal Treatment Plant for \$0.3 million, and the San Juan Creek 30 Acre Property Interim Development for \$0.2 million.

Long-Term Debt

At June 30, 2014, the District had a net of \$40.2 million, which includes current and noncurrent in long-term debt outstanding, a net decrease of \$1.7 million. The long-term debt consists of loans payable, revenue bonds, GO bonds, compensated absences and unamortized deferred amounts for premiums/discounts and refundings. The amount of debt due within the current year totaled \$2.3 million. More detailed information about the District's long-term debt is presented in Note 5 to the basic financial statements.

Capital Assets

Net of accumulated depreciation, the District reported capital assets of \$138,716,648 in fiscal year 2013/14 compared to \$134,750,686 in fiscal year 2012/13. A comparison of the change is provided below by major category. Also see Note 3 to the basic financial statements for further information regarding capital assets.

**Capital Assets
For the Fiscal Years Ended June 30, 2014 and 2013**

| | 2013/14 | 2012/13 | Increase/Decrease % | |
|-------------------------------|-----------------------|----------------------|----------------------------|---------------|
| | | | Amount | Change |
| Land | \$ 2,053,609 | \$ 2,053,609 | \$ - | 0.0% |
| Intangible plant | 37,262,486 | 37,387,368 | (124,882) | -0.3% |
| Source of supply | 21,700,775 | 21,699,947 | 828 | 0.0% |
| Pumping plant | 16,022,123 | 15,827,324 | 194,799 | 1.2% |
| Treatment plants | 22,216,083 | 20,481,973 | 1,734,110 | 7.8% |
| Transmission and distribution | 70,470,996 | 63,635,481 | 6,835,515 | 9.7% |
| Sewer collection system | 38,092,251 | 37,486,546 | 605,705 | 1.6% |
| General plant | 18,112,435 | 16,271,177 | 1,841,258 | 10.2% |
| Recreation facilities | 1,239,440 | 1,218,718 | 20,722 | 1.7% |
| Construction in progress | <u>14,902,106</u> | <u>15,611,258</u> | <u>(709,152)</u> | -4.5% |
| Total capital assets | 244,072,304 | 233,673,401 | 10,398,903 | 4.3% |
| Less accumulated depreciation | <u>(105,355,656)</u> | <u>(98,922,715)</u> | <u>(6,432,941)</u> | 6.1% |
| Net capital assets | <u>\$ 138,716,648</u> | <u>\$134,750,686</u> | <u>\$ 3,965,962</u> | 2.9% |

SOUTH COAST WATER DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS
(CONTINUED)

June 30, 2014

Capital Assets (Continued)

Significant additions to capital assets include the \$12.1 million of completed projects for 2013/2014 with the three largest categories being \$7.0 million in transmission and distribution projects, \$2.2 million in general plant projects and \$1.7 million in treatment plant projects.

The three largest projects completed as of June 30, 2014 were the Aliso Creek Water Harvesting Project (\$3.2 million), Town Center Water Improvements Phase I (\$2.9 million) and the District's share of the capital projects for the Coastal Treatment Plant through the South Orange County Wastewater Authority (\$1.2 million).

Contacting the District's Financial Management

This financial report is designed to provide the South Coast Water District's elected officials, citizens, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability of the money it receives. If you have any questions regarding this report or need additional financial information, please contact the District's Finance Department.

BASIC FINANCIAL STATEMENTS

SOUTH COAST WATER DISTRICT

Statement of Net Position

June 30, 2014

(with prior year data for comparison purposes only)

| | 2014 | 2013 |
|---|---------------|---------------|
| ASSETS | | |
| Current assets: | | |
| Cash and investments (Note 2) | \$ 60,148,768 | \$ 50,586,605 |
| Utility accounts receivable | 3,421,363 | 3,375,166 |
| Property taxes receivable | 343,676 | 218,212 |
| Accrued interest receivable | 53,558 | 46,625 |
| Other receivables | 588,540 | 469,214 |
| Prepaid expenses | 189,276 | 191,892 |
| Materials and supplies inventory | 474,842 | 425,033 |
| Current portion of prepaid PERS contribution (Note 4) | 193,830 | 193,830 |
| Restricted assets: | | |
| Cash and investments restricted by debt agreements (Note 2) | 1,332,974 | 7,618,775 |
| Property tax receivable | 13,312 | 18,765 |
| Total current assets | 66,760,139 | 63,144,117 |
| Noncurrent assets: | | |
| Capital assets: (Note 3) | | |
| Not being depreciated | 16,955,715 | 17,664,867 |
| Being depreciated (net of accumulated depreciation) | 121,760,933 | 117,085,819 |
| Net capital assets | 138,716,648 | 134,750,686 |
| Other assets: | | |
| Prepaid PERS contribution (Note 4) | 775,318 | 969,148 |
| Investment in joint venture (Note 7) | 7,905,139 | 8,058,164 |
| Other assets | 104,156 | 87,246 |
| Total other assets | 8,784,613 | 9,114,558 |
| Total noncurrent assets | 147,501,261 | 143,865,244 |
| Total assets | 214,261,400 | 207,009,361 |

See accompanying notes to the basic financial statements

SOUTH COAST WATER DISTRICT

Statement of Net Position

June 30, 2014

(Continued)

| | 2014 | 2013 |
|--|----------------|----------------|
| LIABILITIES | | |
| Current liabilities: | | |
| Accounts payable | \$ 3,232,583 | \$ 1,829,791 |
| Accrued salaries and benefits | 133,433 | 103,350 |
| Advances from developers | 28,975 | 37,620 |
| Customer deposits | 150,804 | 146,591 |
| Accrued interest payable | 663,261 | 685,642 |
| Current portion of loans payable, net (Note 5) | 351,466 | 351,466 |
| Current portion of bonds payable, net (Note 5) | 1,436,086 | 1,378,567 |
| Current portion of compensated absences (Note 5) | 486,552 | 449,357 |
| Total current liabilities | 6,483,160 | 4,982,384 |
| Noncurrent liabilities: (Note 5) | | |
| Loans payable, net | 1,774,885 | 2,126,352 |
| Bonds payable, net | 35,468,696 | 36,904,871 |
| Compensated absences | 706,034 | 707,116 |
| Total noncurrent liabilities | 37,949,615 | 39,738,339 |
| Total liabilities | 44,432,775 | 44,720,723 |
| DEFERRED INFLOWS | | |
| Deferred amount of refunding | 573,331 | 609,913 |
| Total deferred inflows | 573,331 | 609,913 |
| NET POSITION | | |
| Net investment in capital assets | 100,748,648 | 101,642,108 |
| Unrestricted | 68,506,646 | 60,036,707 |
| Total net position | \$ 169,255,294 | \$ 161,678,815 |

See accompanying notes to the basic financial statements

SOUTH COAST WATER DISTRICT

Statement of Revenues, Expenses and Changes in Net Position

For the Year Ended June 30, 2014

(with prior year data for comparison purposes only)

| | 2014 | 2013 |
|--|----------------|----------------|
| Operating revenues: | | |
| Water sales | \$ 17,439,450 | \$ 16,449,127 |
| Sewer service charges | 12,210,786 | 11,836,935 |
| Recycled water | 1,411,162 | 1,168,678 |
| Recreation facilities | 261,269 | 193,791 |
| Total operating revenues | 31,322,667 | 29,648,531 |
| Operating expenses: | | |
| Source of supply | 6,172,350 | 5,446,549 |
| Groundwater recovery facility | 565,177 | 480,325 |
| Recycled water | 716,697 | 624,700 |
| Pumping expense | 1,067,834 | 1,184,480 |
| Sewer treatment plant | 2,125,949 | 2,349,903 |
| Transmission and distribution | 3,861,885 | 3,963,150 |
| Recreation facilities | 256,403 | 289,591 |
| General and administrative | 9,083,167 | 8,995,989 |
| Depreciation | 7,077,400 | 7,443,391 |
| Total operating expenses | 30,926,862 | 30,778,078 |
| Income (Loss) from operations | 395,805 | (1,129,547) |
| Non-operating revenues (expenses): | | |
| Property taxes – general and bond levy | 5,376,662 | 5,328,828 |
| Connection fees | 521,160 | 138,450 |
| Standby charges | 9,141 | 11,456 |
| Investment income | 115,022 | 140,586 |
| Other revenues | 516,430 | 584,798 |
| Rental income | 638,688 | 595,759 |
| Interest – certificates of participation | (788,860) | (1,039,191) |
| Interest – bond | (42,655) | (58,555) |
| Gain on disposal of capital assets | 34,869 | 13,492 |
| Share of joint venture income (expenses) | (153,024) | (538,699) |
| Other expenses | (365,817) | (108,731) |
| Total non-operating revenues (expenses) | 5,861,616 | 5,068,193 |
| Income before contributions | 6,257,421 | 3,938,646 |
| Capital contributions | 1,319,058 | 67,649 |
| Change in net position | 7,576,479 | 4,006,295 |
| Net position at beginning of the year | 161,678,815 | 157,672,520 |
| Net position at end of the year | \$ 169,255,294 | \$ 161,678,815 |

See accompanying notes to the basic financial statements

SOUTH COAST WATER DISTRICT

Statement of Cash Flows

For the Year Ended June 30, 2014
(with prior year data for comparison purposes only)

| | 2014 | 2013 |
|--|---------------|---------------|
| Cash flows from operating activities: | | |
| Cash received from customers | \$ 31,182,898 | \$ 29,591,093 |
| Cash payments to employees for services | (3,756,313) | (3,852,114) |
| Cash payments to suppliers for goods and services | (18,515,975) | (19,715,082) |
| Standby charges received | 9,141 | 11,456 |
| Rental income received | 638,688 | 595,759 |
| Other expenses | (99,650) | (108,731) |
| Other operating revenues | 516,430 | 584,798 |
| Net cash provided by operating activities | 9,975,219 | 7,107,179 |
| Cash flows from noncapital financing activities: | | |
| Proceeds from property taxes, general levy | 5,256,650 | 5,172,149 |
| Net cash provided by noncapital financing activities | 5,256,650 | 5,172,149 |
| Cash flows from capital and related financing activities: | | |
| Acquisitions and construction of capital assets | (9,444,185) | (7,938,824) |
| Proceeds from sale of capital assets | 304,374 | 24,950 |
| Repayment of notes, bonds and certificates of participation | (1,757,199) | (1,721,558) |
| Interest paid | (1,679,103) | (1,686,129) |
| Water and sewer connection fees received | 521,160 | 138,450 |
| Receipts (return) of customer deposits and developer advances | (8,645) | 37,620 |
| Net cash used for capital and related financing activities | (12,063,598) | (11,145,491) |
| Cash flows from investing activities: | | |
| Investment redemptions and sales | 26,669,075 | 20,178,542 |
| Investment purchases | (11,480,082) | (11,003,483) |
| Interest income received | 108,089 | 155,084 |
| Net cash provided by investing activities | 15,297,082 | 9,330,143 |
| Total increase in cash and cash equivalents | 18,465,353 | 10,463,980 |
| Cash and cash equivalents at beginning of year | 30,788,059 | 20,324,079 |
| Cash and cash equivalents at end of year (Note 2) | \$ 49,253,412 | \$ 30,788,059 |

See accompanying notes to the basic financial statements

SOUTH COAST WATER DISTRICT

Statement of Cash Flows

For the Year Ended June 30, 2014
(with prior year data for comparison purposes only)

(Continued)

| | 2014 | 2013 |
|---|---------------|----------------|
| Reconciliation of loss from operations to net cash provided by operating activities: | | |
| Income (loss) from operations | \$ 395,805 | \$ (1,129,547) |
| Adjustments to reconcile income (loss) from operations to net cash provided by operating activities: | | |
| Operating activities: | | |
| Depreciation | 7,077,400 | 7,443,391 |
| Rental income received | 638,688 | 595,759 |
| Standby charges and other revenues | 9,141 | 11,456 |
| Other revenues (expenses) | 416,780 | 476,067 |
| Changes in assets and liabilities: | | |
| Decrease (increase) in utility accounts receivable | (46,197) | (296,438) |
| Decrease (increase) in other receivables | (97,785) | 240,417 |
| Decrease (increase) in prepaid PERS contribution | 193,830 | 193,830 |
| Decrease (increase) in prepaid expenses | 2,616 | 12,898 |
| Decrease (increase) in net OPEB asset | (21,540) | (20,071) |
| Decrease (increase) in other assets | (16,910) | (13,680) |
| Decrease (increase) in materials and supplies inventory | (49,809) | 5,648 |
| Increase (decrease) in accounts payable | 1,402,791 | (195,902) |
| Increase (decrease) in accrued expenses | 30,083 | 7,524 |
| Increase (decrease) in deposits payable | 4,213 | (1,417) |
| Increase (decrease) in compensated absences | 36,113 | (222,756) |
| Net cash provided by operating activities | \$ 9,975,219 | \$ 7,107,179 |
| Reconciliation of cash and cash equivalents to statement of net position: | | |
| Current cash and investments | \$ 60,148,768 | \$ 50,586,605 |
| Restricted cash and investments: | | |
| Debt agreements | 1,332,974 | 7,618,775 |
| Total cash and investments | 61,481,742 | 58,205,380 |
| Less investments with maturities greater than 3 months | (12,228,330) | (27,417,321) |
| Cash and cash equivalents (Note 2) | \$ 49,253,412 | \$ 30,788,059 |
| Supplemental disclosure of noncash capital and related financing and investing activities: | | |
| Share of joint venture revenues (expenses) | \$ (153,024) | \$ (538,699) |
| Contributed assets from developers | \$ 1,319,058 | \$ 67,649 |

See accompanying notes to the basic financial statements

SOUTH COAST WATER DISTRICT

Statement of Fiduciary Net Position - Trust Fund

June 30, 2014

(with prior year data for comparison purposes only)

| ASSETS | JRWSS Trust | |
|---|---------------|---------------|
| | 2014 | 2013 |
| Current assets: | | |
| Cash and investments (Note 2) | \$ 3,445,095 | \$ 3,751,032 |
| Accounts receivable: | | |
| Water | 36,402 | 46,234 |
| Other | 100,170 | 52,501 |
| Accrued interest receivable | 6,958 | 8,500 |
| Prepaid expenses and deposits | 8,824 | 10,671 |
| Current portion of notes receivable (Note 12) | 390,000 | 370,000 |
| Restricted assets: | | |
| Cash and investments restricted by debt agreements (Note 2) | 465,758 | 465,709 |
| Total current assets | 4,453,207 | 4,704,647 |
| Noncurrent assets: | | |
| Notes receivable (Note 12) | 1,280,000 | 1,670,000 |
| Capital assets (Note 13) | | |
| Not being depreciated | 7,316,291 | 7,460,570 |
| Being depreciated (net of accumulated depreciation) | 20,007,145 | 20,348,350 |
| Net capital assets | 27,323,436 | 27,808,920 |
| Total noncurrent assets | 28,603,436 | 29,478,920 |
| Total assets | 33,056,643 | 34,183,567 |
| LIABILITIES | | |
| Current liabilities: | | |
| Accounts payable | 128,105 | 126,606 |
| Accrued salaries and benefits | 48,970 | 49,031 |
| Interest payable | 6,958 | 8,500 |
| Current portion of notes payable (Note 12) | 390,000 | 370,000 |
| Total current liabilities | 574,033 | 554,137 |
| Noncurrent liabilities: | | |
| Notes payable (Note 12) | 1,280,000 | 1,670,000 |
| Capital deposits | 6,529,599 | 6,929,613 |
| Total noncurrent liabilities | 7,809,599 | 8,599,613 |
| Total liabilities | 8,383,632 | 9,153,750 |
| NET POSITION | | |
| Net investment in capital assets | 27,323,436 | 27,808,920 |
| Unrestricted | (2,650,425) | (2,779,103) |
| Total net position | \$ 24,673,011 | \$ 25,029,817 |

See accompanying notes to the basic financial statements

SOUTH COAST WATER DISTRICT
Statement of Changes in Fiduciary Net Position - Trust Fund
For the Year Ended June 30, 2014

(with prior year data for comparison purposes only)

| Additions | JRWSS Trust | |
|--|---------------|---------------|
| | <u>2014</u> | <u>2013</u> |
| Contributions: | | |
| Water sales and charges | \$ 232,440 | \$ 514,081 |
| Maintenance and operation advances | 1,719,577 | 1,642,205 |
| Investment income | 99,066 | 122,010 |
| Participant contributions for projects | 675,024 | 268,893 |
| Property taxes | 1,174,069 | 1,152,849 |
| Total additions | 3,900,176 | 3,700,038 |
| Deductions | | |
| Water purchases | 232,440 | 514,081 |
| Direct operating expenses | 1,128,596 | 1,138,237 |
| Administrative and general expenses | 371,961 | 431,025 |
| Depreciation | 1,016,229 | 991,379 |
| Interest expense | 91,208 | 109,211 |
| Refunds to participants | 1,416,548 | 1,710,774 |
| Total deductions | 4,256,982 | 4,894,707 |
| Change in net position | (356,806) | (1,194,669) |
| Net position at beginning of year | 25,029,817 | 26,224,486 |
| Net position at end of year | \$ 24,673,011 | \$ 25,029,817 |

See accompanying notes to the basic financial statements.

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements

For the Year Ended June 30, 2014

(1) Summary of Significant Accounting Policies

(a) Organization and Description of Reporting Entity

The South Coast Water District (the District) was formed in 1932 under the California Water Code. The District serves an area of approximately 10 square miles, encompassing portions of the Cities of Dana Point, Laguna Beach, San Clemente and San Juan Capistrano.

Effective July 1, 1976, in accordance with Orange County Reorganization No. 31, the District was designated as the successor to the South Laguna Sanitary District for the purpose of succeeding to all rights, duties and obligations of the South Laguna Sanitary District. These sewer functions are performed by the District under the title of the South Coast Water District Improvement District No. 1-S. The Improvement District serves an area of approximately 2,750, acres all located within the water operation boundaries.

In February 1997, the District entered into an agreement for the detachment of the Laguna Sur/Monarch Point Community of the District to be annexed to Moulton Niguel Water District (the Reorganization RO96-05). This reorganization was effective July 1, 1997.

In June 1998, the District was the primary filing applicant in a request for consolidation filed with the Local Agency Formation Commission of Orange County (LAFCO). In October 1998, LAFCO adopted a resolution (RO97-18) effective January 1, 1999 and provided for the consolidation of the South Coast Water District and the Capistrano Beach Water District, and the dissolution of the Dana Point Sanitary District. The District was established as the successor agency.

The consolidated District originally established four separate financial zones comprising the areas within: (1) The Original South Coast Water District; (2) Dana Point Sanitary District; (3) Capistrano Beach Water District; and (4) Capistrano Beach Water Sewer Improvement District No. 1. The financial zones separately accounted for assets, reserves, bond obligations and operations. Rates, charges and assessments for water and sewer services varied between financial zones. Based on a Financial Equalization Study, completed in 2002, the District implemented an Asset Equalization Charge and no longer maintained separate accounting by service area.

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements (Continued)

For the Year Ended June 30, 2014

(1) Summary of Significant Accounting Policies, (Continued)

(a) Organization and Description of Reporting Entity, (Continued)

Effective July 1, 1999, the portion of the original South Coast Water District that lies within the City of Laguna Beach was annexed to the City of Laguna Beach. The agreement between the District and the City of Laguna Beach provides for the District to continue both water and sewer service to this area for several years. The agreement provides for annual extensions of the service provided unless terminated by either party.

Effective March 31, 2000, in accordance with LAFCO resolution (RO 99-07), the District was designated the contract operator for future operations and maintenance of the system and facilities of the former Tri-Cities Municipal Water District (TCMWD), which was legally consolidated with Coastal Municipal Water District, the successor agency. The net assets of TCMWD, other than TCMWD board and LAFCO directed operating and other cash reserves, transferred over to the participating agencies, equal to their respective ownership percentages, were assigned to the District to be held in trust and used for the benefit of the agreement participants (See Note 7).

The District's water supply is purchased from the Metropolitan Water District through the Municipal Water District of Orange County.

The financial statements present the District and its component units. The District is the primary government unit. Component units are those entities which are financially accountable to the primary government, either because the District appoints a voting majority on the component unit's board, or because the component unit will provide a financial benefit or impose a financial burden on the District.

The District's reporting entity includes the South Coast Water District Financing Authority (the Financing Authority), a California nonprofit public benefit corporation, formed for the purpose of providing financial assistance to the District. Although the District and the Financing Authority are legally separate entities, the District's Board of Directors is financially responsible for the Financing Authority and, therefore, the accompanying financial statements include the accounts and records of the Financing Authority using the blending method as required by accounting principles generally accepted in the United States of America. There are no separate financial statements for the Financing Authority.

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2014

(1) Summary of Significant Accounting Policies, (Continued)

(b) Basis of Accounting, Measurement Focus, and Financial Statement Presentation

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 business enterprises, where the intent of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

The basic financial statements are prepared using the economic resource measurement focus and the accrual basis of accounting. Under the economic resources measurement focus all assets, deferred outflows of resources, liabilities and deferred inflows of resources (whether current or noncurrent) associated with the District's activities are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized when earned while expenses are recognized when the liability is incurred regardless of the timing of cash flow.

The District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services, delivering water, and collecting, treating and disposing of wastewater in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Capital contributions are reported as a separate line item in the Statement of Revenues, Expenses and Changes in Net Position.

(c) New Accounting Pronouncements

Current Year Standards

The District has implemented the following statements with no impact to the District.

- GASB 66 – “*Technical Corrections, an amendment of GASB Statement No. 10 and Statement No. 62.*”
- GASB 70 – “*Accounting and Financial Reporting for Nonexchange Financial Guarantees.*”

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2014

(1) Summary of Significant Accounting Policies, (Continued)

(c) New Accounting Pronouncements, (Continued)

Pending Accounting Standards

GASB has issued the following statements which may impact the District's financial reporting requirements in the future:

- GASB 68 – *“Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27”*, effective for the fiscal years beginning after June 15, 2014.
- GASB 69 – *“Government Combinations and Disposals of Government Operations”*, effective for periods beginning after December 15, 2013.
- GASB 71 – *“Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB No. 68”*, effective for periods beginning after June 15, 2014.

(d) Joint Powers Agreements

The District is a participant in both the South Orange County Wastewater Authority (SOCWA) and in the San Juan Basin Authority (SJBA) for the purpose of operating and maintaining wastewater delivery, treatment and disposal facilities as well as management of regional groundwater and recycled water facilities.

South Orange County Wastewater Authority (a California Joint Powers Authority)

The District is a member of the South Orange County Wastewater Authority (SOCWA). SOCWA collects, treats, beneficially reuses and disposes of wastewater in South Orange County. SOCWA operates four wastewater treatment plants (WWTP) in the region. SOCWA has ten member agencies, including three cities and seven water districts. A Board of Directors consisting of representatives from member agencies governs SOCWA. The Board of Directors controls the operations of SOCWA, including selection of management and approval of the annual budget. SOCWA has Project Committees that member agencies participate in financially at various levels, depending on their capacity rights. Each WWTP is a project, as well as various other physical facilities such as outfall pipelines.

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2014

(1) Summary of Significant Accounting Policies, (Continued)

(d) Joint Powers Agreements, (Continued)

South Orange County Wastewater Authority (a California Joint Powers Authority), (Continued)

The District deposits money with SOCWA to cover its share of operation and capital in the project committees the District participates in. The District has no equity interest in SOCWA and does not receive a share of operating results. Construction deposits made to SOCWA for capital projects are recorded as capital assets.

To obtain complete financial information from SOCWA please contact SOCWA's Director of Finance at 34156 Del Obispo Street, Dana Point, CA 92629.

San Juan Basin Authority (a California Joint Powers Authority)

The District is also a member of the San Juan Basin Authority (SJBA) a joint powers authority formed to secure and develop water rights for its member agencies. It currently has permits for using the San Juan Groundwater Basin as an underground storage reservoir. A Board of Directors consisting of representatives from member agencies governs SJBA. The Board of Directors oversees contracts and approves the annual budget. SJBA has Project Committees that member agencies participate in financially at various levels based upon ownership or usage. The District deposits money with SJBA to cover its share of costs in the respective projects.

The District has no equity interest in SJBA and does not receive a share of operating results. Construction deposits made to SJBA for capital projects are recorded as capital assets.

To obtain complete financial information from SJBA contact South Coast Water District's Director of Finance.

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2014

(1) Summary of Significant Accounting Policies, (Continued)

(e) Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

(f) Cash and Investments

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

(g) Restricted Assets

Amounts shown as restricted assets have been restricted by either bond indenture, by law, or contractual obligations to be used for specified purposes, such as servicing bonded debt and construction of capital assets.

(h) Materials and Supplies Inventory

Inventories of materials and supplies are valued at the lower of cost or market using the first-in, first-out basis.

(i) Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

(j) Allowance for Doubtful Accounts

An allowance for doubtful accounts has not been established for utility accounts receivable. District management believes all amounts are collectible. Amounts over 60 days are not significant for the fiscal year ended June 30, 2014.

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2014

(1) Summary of Significant Accounting Policies, (Continued)

(k) Arbitrage Rebate Payable

Internal Revenue Code Section 148, under the Tax Reform Act of 1986, requires that certain interest earnings in excess of interest costs of tax-exempt debt on bonds and tax revenue anticipation notes to be rebated to the United States Government. The arbitrage rebate represents the difference between interest earned over a five-year period and the cost of tax-exempt debt. Internal Revenue Regulations Section 1.148 provides guidance in the calculation of the arbitrage liability. At June 30, 2014, the District does not have an arbitrage liability.

(l) Revenue Recognition

Revenues are recognized when earned. Metered water accounts are read and billed bi-monthly on 30-day cycles. Sewer customers are also billed and included with the water billing. In certain areas of the District, the sewer billing is handled by another water utility agency, but is accrued as revenues by the District each month. Collections are forwarded monthly, based on actual receipts. Unbilled water and wastewater charges are accrued for the period from the last meter reading through year-end and are included in accounts receivable. Unbilled accounts receivable amounted to \$2,525,337 at June 30, 2014.

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2014

(1) Summary of Significant Accounting Policies, (Continued)

(m) Capital Assets

Capital assets are stated at cost with an initial cost of \$5,000. Contributed capital assets are recorded at fair market value at the time they are received and consist primarily of portable water, recycled water and sewer systems contributed by real estate developers. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the capital assets as follows:

| | |
|---|----------|
| Tract facilities, reservoirs, transmission connections, recreation facilities, collection lines and administrative building | 50 years |
| Conservation facilities, reclamation terminals, intangible plant, source of supply, pumping plants and sewer connections | 40 years |
| Groundwater recovery facility | 30 years |
| Collection system | 33 years |
| Meters | 12 years |
| Power operated equipment, office furniture and automotive | 10 years |
| Tools and computer hardware | 5 years |
| Computer software | 3 years |

The District incurs interest charges on the Revenue Bonds. Interest expense of \$815,791 has been capitalized as an addition to the cost of construction for the year ended June 30, 2014.

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2014

(1) Summary of Significant Accounting Policies, (Continued)

(n) Compensated Absences

The District has a policy whereby an employee can accumulate sick leave and vacation. The sick leave is to be used for extended periods of sickness; however, upon termination or retirement, a portion will be paid as additional benefits. Upon completion of employment, employees with three years or more service will be paid for 50% of the then unused sick leave at regular payroll rates in effect at the date of the termination. The District has provided for these future costs by accruing unused sick leave and vacation of \$656,093 and \$536,493, respectively, and are included in compensated absences in the accompanying statement of net position.

(o) Bond Discount/Premium

Bond discount and premium are deferred and amortized over the term of bonds. Net bond premium and discounts are presented as a reduction or addition of the face amount of bonds payable. The remaining unamortized amount of unamortized bond discount and bond premium amounted to \$586,980 and \$560,118 at June 30, 2014, respectively.

(p) Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expenses/expenditure) until then. The District has no deferred outflows of resources.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The District has only one type of item, which is the deferred gain on refunding which resulted from the difference in the carrying value of refunded debt and its reacquisition price. This amount is shown as deferred and amortized over the life of the refunded or refunding debt.

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2014

(1) Summary of Significant Accounting Policies, (Continued)

(q) Net Position Flow Assumption

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

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

(r) Property Taxes

Property tax in California is levied in accordance with Article XIIA of the State Constitution at 1% of countywide assessed valuations. The property taxes are placed in a pool, and then allocated to the local governmental units.

Property tax revenue is recognized in the fiscal year in which taxes are levied.

The property tax calendar is as follows:

| | |
|------------------|---|
| Lien date: | January 1 |
| Levy date: | July 1 |
| Due date: | First installment - November 10 Second installment - February 10 |
| Delinquent date: | First installment - December 11 Second installment - April 11 |

(s) Use of Estimates

The financial statements are prepared in accordance with generally accepted accounting principles in the United States and, accordingly, include amounts that are based on management’s best estimates and judgments. Actual results could differ from those estimates.

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2014

(1) Summary of Significant Accounting Policies, (Continued)

(t) Prior Year Data

Selected information regarding the prior year has been included in the accompanying financial statements and notes to basic financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the District's prior year financial statements, from which this selected financial data was derived.

(u) Subsequent Events

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through September 10, 2014, the date the financial statements were available to be issued.

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2014

(2) Cash and Investments

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

| | |
|--------------------------------------|---------------------|
| Statement of Net Position: | |
| Unrestricted cash and investments | \$60,148,768 |
| Restricted cash and investments | 1,332,974 |
| Statement of Fiduciary Net Position: | |
| Unrestricted cash and investments | 3,445,095 |
| Restricted cash and investments | <u>465,758</u> |
| Total cash and investments | <u>\$65,392,595</u> |

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

| | |
|---|---------------------|
| Cash on hand | \$ 4,825 |
| Deposits with fiscal agent | 545,000 |
| Deposits with financial institutions - District | 10,235,429 |
| Deposits with financial institutions - JRWSS | 1,891,934 |
| Investments | <u>52,715,407</u> |
| Total cash and investments | <u>\$65,392,595</u> |

Cash and cash equivalents as of June 30, 2014 consist of the following:

| | |
|---|---------------------|
| Cash on hand | \$ 4,825 |
| Deposits with financial institutions - District | 10,235,429 |
| Deposits with fiscal agent | 545,000 |
| Money market funds | 4,708,357 |
| Investments - LAIF | 31,755,919 |
| Investments - CAMP | <u>2,003,882</u> |
| Total cash and cash equivalents | <u>\$49,253,412</u> |

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2014

(2) Cash and Investments, (Continued)

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

The table below identifies the *investment types* that are authorized for the District by the California Government Code and the District's investment policy. The table also identifies certain provisions of the California Government Code (or the District's investment policy, if more restrictive) that address *interest rate risk* and *concentration of credit risk*. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy. The District's investment policy also contains certain allocation goals or targets that are viewed to be general guidelines to promote diversification, rather than restrictions. The District determines conformity to any percentage limitations or guidelines contained in the District's investment policy or the California Government Code by comparing the specified investment balance as of a given date to the total par value of the District's cash and investment portfolio as of the beginning of the fiscal year containing that date.

| Investment Types <u>Authorized by State Law</u> | Authorized By Investment <u>Policy</u> | Maximum <u>Maturity</u> | Maximum Percentage <u>Of Portfolio</u> | Maximum Investment <u>In One Issuer</u> |
|--|--|----------------------------|--|---|
| Local Agency Bonds | Yes | 5 years | 20% | \$500,000 |
| U.S. Treasury Obligations | Yes | 5 years | 50% | None |
| U.S. Government Sponsored | | | | |
| Agency Securities | Yes | 5 years | 60% | 15% |
| Banker's Acceptances | Yes | 180 days | 20% | \$1 million |
| Commercial Paper | Yes | 270 days | 25% | \$1 million |
| Negotiable Certificates of Deposits | Yes | 5 year | 10% | \$250,000 |
| Repurchase Agreements | Yes | 1 year | 20% | \$5 million |
| Medium-Term Notes | Yes | 5 years | 15% | \$500,000 |
| Money Market Mutual Funds | Yes | N/A | 20% | 10% |
| Orange County Pooled Investment Funds | Yes | N/A | 20% | None |
| California Asset Management Program | Yes | N/A | 20% | None |
| Local Agency Investment Funds (LAIF) | Yes | N/A | 40% | None |
| Variable (Floating) Rate Notes | Yes | N/A | N/A | None |
| CalTrust Investment Program | Yes | N/A | 20% | None |

N/A - Not Applicable

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2014

(2) Cash and Investments, (Continued)

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee is governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk and concentration of credit risk.

| <u>Authorized Investment Type</u> | <u>Maximum Maturity</u> | <u>Maximum Percentage Allowed</u> | <u>Maximum Investment in One Issuer</u> |
|--|-----------------------------|---|---|
| U.S. Treasury Obligations | None | None | None |
| U.S. Government Sponsored Agency Securities | None | None | None |
| Banker's Acceptances | 30 days | None | None |
| Commercial Paper | 270 days | None | None |
| Money Market Mutual Funds | N/A | None | None |
| Investment Contracts | 30 years | None | None |
| Certificate of Deposit | 30 days | None | None |
| State Obligations | None | None | None |
| Repurchase Agreements | 270 days | None | None |

N/A - Not Applicable

Disclosures Relating to Interest Rate Risk

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

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2014

(2) Cash and Investments, (Continued)

Disclosures Relating to Interest Rate Risk, (Continued)

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

| <u>Investment type</u> | <u>Total</u> | <u>6 Months Or Less</u> | <u>7 - 12 Months</u> | <u>13 - 24 Months</u> | <u>More than 25 Months</u> |
|--|---------------------|-----------------------------|--------------------------|---------------------------|--------------------------------|
| Money market mutual funds | \$4,543,639 | \$4,543,639 | \$ - | \$ - | \$ - |
| U.S. Treasury | 7,111,910 | - | 4,006,760 | 1,029,450 | 2,075,700 |
| Federal Agency Securities | 5,118,580 | - | 2,004,090 | 2,113,890 | 1,000,600 |
| Negotiable Certificates of Deposit | 1,000,410 | - | - | 1,000,410 | - |
| California Asset Management Plan (CAMP) | 2,003,882 | 2,003,882 | - | - | - |
| Local Agency Investment Fund (LAIF) | 31,755,920 | 31,755,920 | - | - | - |
| Held by bond trustee: | | | | | |
| Money market mutual funds | <u>1,181,066</u> | <u>1,181,066</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Totals | <u>\$52,715,407</u> | <u>\$39,484,507</u> | <u>\$6,010,850</u> | <u>\$4,143,750</u> | <u>\$3,076,300</u> |

Disclosures Relating to Credit Risk

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

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2014

(2) Cash and Investments, (Continued)

Disclosures Relating to Credit Risk, (Continued)

| <u>Investment Type</u> | <u>Total as of June 30, 2014</u> | <u>Minimum Legal Rating</u> | <u>Ratings as of Year End</u> | | | | |
|---|--|-------------------------------------|-------------------------------|----------------------|---------------------|----------------------|---------------------|
| | | | <u>AAA</u> | <u>Other AA+</u> | <u>Aaa</u> | <u>Not Rated</u> | <u>Exempt</u> |
| Money market mutual funds | \$ 4,543,639 | Aaa | \$ - | \$ - | \$ 4,543,639 | \$ - | \$ - |
| U.S. Treasury | 7,111,910 | | | | | | 7,111,910 |
| Federal Agency Securities | 5,118,580 | N/A | - | 5,118,580 | - | - | - |
| Negotiable Certificates of Deposit | 1,000,410 | N/A | - | - | - | 1,000,410 | - |
| California Asset Management Plan (CAMP) | 2,003,882 | N/A | - | - | - | 2,003,882 | - |
| Local Agency Investment Fund (LAIF) | 31,755,920 | N/A | - | - | - | 31,755,920 | - |
| Held by bond trustee: | | | | | | | |
| Money market mutual funds | <u>1,181,066</u> | AAA | <u>1,181,066</u> | - | - | - | - |
| Totals | <u>\$52,715,407</u> | | <u>\$ 1,181,066</u> | <u>\$ 5,118,580</u> | <u>\$ 4,543,639</u> | <u>\$ 34,760,212</u> | <u>\$ 7,111,910</u> |

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code.

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2014

(2) Cash and Investments, (Continued)

Concentration of Credit Risk, (Continued)

Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% of more of total District investments are as follows:

| <u>Issuer</u> | <u>Investment Type</u> | <u>Reported Amount</u> |
|---------------------------------|---------------------------|------------------------|
| Federal National Mortgage Assn. | Federal Agency Securities | \$3,080,320 |

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 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 California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. At June 30, 2014, all of the District's deposits were insured and collateralized as required by California Law except for \$545,000, which is held by the bond trustee and is not insured or collateralized.

For investments identified herein as held by bond trustee, the bond trustee selects the investment under the terms of the applicable trust agreement, acquires the investment, and holds the investment on behalf of the District.

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements (Continued)

For the Year Ended June 30, 2014

(2) Cash and Investments, (Continued)

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.

Investment in California Asset Management Program (CAMP)

The District invests in this investment trust, which is similar to a money market mutual fund. The fund invests primarily in certificates of deposit, commercial paper, and U.S. Government and Agency obligations. The District is a voluntary participant in the investment pool.

The CAMP Cash Reserve Portfolio (the Pool) is exempt from registration with the Securities and Exchange Commission (SEC) under the Investment Company Act of 1940, but operates in a manner consistent with SEC Rule 2a-7, "Money Market Funds", of that Act. Accordingly, the Pool meets the definition of a "2a7-like pool" set forth in GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*. While the Pool itself is exempt from SEC registration, the Pool's investment advisor and administrator, PFM Asset Management, LLC, is registered with the SEC as an investment advisor under the Investment Advisors Act of 1940. PFM Asset Management, LLC has also filed a notice with the California Department of Corporations, as well as various other states, as an investment advisor under state securities laws. In addition, the Pool also meets the definition of "Municipal Fund Security" outlined by Municipal Securities Rulemaking Board (MSRB) Rule 0-12, therefore contracts with prospective investors relating to shares of the Pool are conducted through PFM Asset Management's wholly-owned subsidiary, PFMAM, Inc., a broker-dealer which is registered with the SEC and MSRB, and is a member of the National Association of Securities Dealers (NASD). The Pool also files an income tax return annually with the Internal Revenue Service, though the net income of the Pool is generally exempt from federal income tax.

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2014

(3) Capital Assets

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

| | <u>Balance at June 30, 2013</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance at June 30, 2014</u> |
|--|-------------------------------------|---------------------|-----------------------|-------------------------------------|
| Capital assets, nondepreciable: | | | | |
| Land and land rights | \$ 2,053,609 | \$ - | \$ - | \$ 2,053,609 |
| Construction in progress | <u>15,611,258</u> | <u>10,118,160</u> | <u>(10,827,312)</u> | <u>14,902,106</u> |
| Total capital assets, nondepreciable | <u>17,664,867</u> | <u>10,118,160</u> | <u>(10,827,312)</u> | <u>16,955,715</u> |
| Capital assets, depreciable: | | | | |
| Intangible plant | 37,387,368 | 3,127 | (128,009) | 37,262,486 |
| Source of supply | 21,699,947 | 828 | - | 21,700,775 |
| Pumping plant | 15,827,324 | 194,799 | - | 16,022,123 |
| Treatment plants | 20,481,973 | 1,734,110 | - | 22,216,083 |
| Transmission and distribution | 65,635,481 | 6,997,813 | (162,298) | 72,470,996 |
| Sewer collection system | 37,486,546 | 1,035,830 | (430,125) | 38,092,251 |
| General plant | 16,271,177 | 2,162,799 | (321,541) | 18,112,435 |
| Recreation facilities | <u>1,218,718</u> | <u>20,722</u> | <u>-</u> | <u>1,239,440</u> |
| Total capital assets, depreciable | <u>216,008,534</u> | <u>12,150,028</u> | <u>(1,041,973)</u> | <u>227,116,589</u> |
| Less accumulated depreciation for: | | | | |
| Intangible plant | 24,379,594 | 1,630,487 | - | 26,010,081 |
| Source of supply | 12,092,844 | 521,397 | - | 12,614,241 |
| Pumping plant | 4,528,527 | 417,057 | - | 4,945,584 |
| Treatment plants | 9,023,294 | 516,970 | - | 9,540,264 |
| Transmission and distribution | 23,088,926 | 1,664,281 | (113,431) | 24,639,776 |
| Sewer collection system | 14,903,302 | 802,049 | (253,523) | 15,451,828 |
| General plant | 10,146,038 | 1,499,965 | (277,505) | 11,368,498 |
| Recreation facilities | <u>760,190</u> | <u>25,194</u> | <u>-</u> | <u>785,384</u> |
| Total accumulated depreciation | <u>98,922,715</u> | <u>7,077,400</u> | <u>(644,459)</u> | <u>105,355,656</u> |
| Total capital assets depreciable, net | <u>117,085,819</u> | <u>5,072,628</u> | <u>(397,514)</u> | <u>121,760,933</u> |
| Capital assets, net | <u>\$134,750,686</u> | <u>\$15,190,788</u> | <u>\$(11,224,826)</u> | <u>\$138,716,648</u> |

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2014

(4) PERS Prepaid Unfunded Liability

In fiscal year 2003, California legislation mandated that all agencies with less than 100 active members be enrolled in a risk sharing pool with all other agencies in the State with similar benefit packages. At the time of joining the risk pool, a side fund was created to account for the difference between the funded status of the District's Plan and the funded status of the risk pool. As a result the District's side fund owed to the CalPERS pool was \$2,325,958 as of June 30, 2007. On July 1, 2007, the District opted to pay off the side fund of \$2,325,958, reducing the employer rate by 4.931% over the next 12 years. The District is amortizing this prepaid amount over the next 12 years. The current portion of the prepaid PERS contribution is \$193,830 and future deferred expense is \$775,318 at June 30, 2014.

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2014

(5) Long-Term Debt

The following is a summary of long-term debt at June 30, 2014:

| | Balance at <u>6/30/2013</u> | <u>Additions</u> | <u>Deletions</u> | Balance at <u>6/30/2014</u> | <u>Current</u> | Non- <u>Current</u> |
|--------------------------------|--------------------------------|------------------|----------------------|--------------------------------|--------------------|------------------------|
| Compensated Absences | \$ 1,156,473 | \$569,892 | \$ (533,779) | \$ 1,192,586 | \$ 486,552 | \$ 706,034 |
| 2000 State revolving loan | 2,961,541 | - | (423,079) | 2,538,462 | 423,078 | 2,115,384 |
| Less unamortized loan discount | (483,723) | - | 71,612 | (412,111) | (71,612) | (340,499) |
| Bonds payable | 38,212,040 | - | (1,334,120) | 36,877,920 | 1,391,640 | 35,486,280 |
| Less unamortized discount | (581,661) | - | 21,543 | (560,118) | (21,543) | (538,575) |
| Add unamortized premiums | <u>652,969</u> | <u>-</u> | <u>(65,989)</u> | <u>586,980</u> | <u>65,989</u> | <u>520,991</u> |
| | <u>\$41,917,639</u> | <u>\$569,892</u> | <u>\$(2,263,812)</u> | <u>\$40,223,719</u> | <u>\$2,274,104</u> | <u>\$37,949,615</u> |

2000 State Revolving Loan

On December 2, 1998, the District entered into a loan agreement with the State of California, acting by and through the State Water Resources Control Board for the District purchase and improvements at the Victoria Wastewater Treatment Plant. On December 21, 2000, the District received the first phase of funding in the amount of \$3,650,192. On November 18, 2004, the District received its final payment of \$2,720,860. The loan bears no interest with annual principal payment of \$423,078 maturing on June 30, 2020. The amount payable as of June 30, 2014 is \$2,538,462 which includes \$483,723 in imputed interest.

Total 2000 State Revolving Loan outstanding as of June 30, 2014, net of unamortized loan premium, was as follows:

| | |
|---|--------------------|
| Principal outstanding at June 30, 2014 | \$2,538,462 |
| Less unamortized loan discount (imputed interest) | <u>(412,111)</u> |
| Net loan outstanding at June 30, 2014 | <u>\$2,126,351</u> |

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2014

(5) Long-Term Debt, (Continued)

2000 State Revolving Loan, (Continued)

The annual requirements to service the outstanding balance at June 30, 2014 are as follows:

| <u>Year Ending June 30</u> | <u>Principal</u> | <u>Unamortized Loan Discount</u> | <u>Total</u> |
|--------------------------------|--------------------|--------------------------------------|--------------------|
| 2015 | \$ 423,078 | \$ (71,612) | \$ 351,466 |
| 2016 | 423,078 | (71,612) | 351,466 |
| 2017 | 423,078 | (71,612) | 351,466 |
| 2018 | 423,078 | (71,612) | 351,466 |
| 2019 | 423,078 | (71,612) | 351,466 |
| 2020 | <u>423,072</u> | <u>(54,051)</u> | <u>369,021</u> |
| Total | <u>\$2,538,462</u> | <u>\$(412,111)</u> | <u>\$2,126,351</u> |

Amortization expense was \$71,612 for the year ended June 30, 2014.

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2014

(5) Long-Term Debt, (Continued)

The annual future maturities for bonds payable are as follows:

| Year Ending June 30 | 2010A Refunding Revenue Bonds | 2010B Revenue Bonds | 2011A Refunding General Obligation Bonds | 1998 Water Revenue Refunding Bonds | Total |
|-------------------------------------|----------------------------------|-------------------------|--|--|-------------------------|
| 2015 | \$ 700,000 | \$ - | \$ 545,000 | \$ 146,640 | \$ 1,391,640 |
| 2016 | 730,000 | - | 565,000 | 152,280 | 1,447,280 |
| 2017 | 765,000 | - | 590,000 | 161,680 | 1,516,680 |
| 2018 | 805,000 | - | 220,000 | 167,320 | 1,192,320 |
| 2019 | 845,000 | - | - | - | 845,000 |
| 2020-2024 | 4,890,000 | - | - | - | 4,890,000 |
| 2025-2029 | 6,245,000 | - | - | - | 6,245,000 |
| 2030-2034 | - | 7,795,000 | - | - | 7,795,000 |
| 2035-2039 | - | 9,440,000 | - | - | 9,440,000 |
| 2040 | <u>-</u> | <u>2,115,000</u> | <u>-</u> | <u>-</u> | <u>2,115,000</u> |
| Total principal | <u>14,980,000</u> | <u>19,350,000</u> | <u>1,920,000</u> | <u>627,920</u> | <u>36,877,920</u> |
| 2015 | 742,000 | 1,161,000 | 64,537 | 27,730 | 1,995,267 |
| 2016 | 714,000 | 1,161,000 | 43,700 | 20,257 | 1,938,957 |
| 2017 | 677,500 | 1,161,000 | 20,600 | 12,408 | 1,871,508 |
| 2018 | 639,250 | 1,161,000 | 4,400 | 4,183 | 1,808,833 |
| 2019 | 599,000 | 1,161,000 | - | - | 1,760,000 |
| 2020-2024 | 2,318,500 | 5,805,000 | - | - | 8,123,500 |
| 2025-2029 | 1,335,250 | 5,805,000 | - | - | 7,140,250 |
| 2030-2034 | - | 4,905,600 | - | - | 4,905,600 |
| 2035-2039 | - | 2,377,200 | - | - | 2,377,200 |
| 2040 | <u>-</u> | <u>126,900</u> | <u>-</u> | <u>-</u> | <u>126,900</u> |
| Total interest | <u>7,025,500</u> | <u>24,824,700</u> | <u>133,237</u> | <u>64,578</u> | <u>32,048,015</u> |
| Total principal and interest | <u>\$22,005,500</u> | <u>\$44,174,700</u> | <u>\$2,053,237</u> | <u>\$ 692,498</u> | <u>\$68,925,935</u> |

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2014

(5) Long-Term Debt, (Continued)

2011A Refunding General Obligation Bonds

In June 2011, the South Coast Water District issued \$2,965,000 of Refunding General Obligation Bonds, Series 2011A. The 2011A Bonds were issued to provide funds (1) to currently refund the District's outstanding General Obligation Bonds, Issue of 2000, in the aggregate principal amount of \$3,585,000; and (2) to pay costs incurred in connection with the issuance of the Bonds. The District completed the refunding to reduce its total debt service payments by \$848,089 and to obtain an economic gain (difference between the present value of the old and new debt service payments) of \$221,084.

The 2011A Bonds include principal installments due in varying amounts from \$220,000 to \$590,000 annually from July 1, 2012 to July 1, 2017 with interest ranging from 2.0% to 4.0%.

| | |
|---|--------------------|
| Principal outstanding at June 30, 2014 | \$1,920,000 |
| Plus unamortized premium | <u>100,737</u> |
| Net Bonds outstanding at June 30, 2014 | <u>\$2,020,737</u> |

The annual requirements to service the outstanding Bonds at June 30, 2014 are as follows:

| Year Ending <u>June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------------------------|--------------------|------------------|--------------------|
| 2015 | \$ 545,000 | \$ 64,537 | \$ 609,537 |
| 2016 | 565,000 | 43,700 | 608,700 |
| 2017 | 590,000 | 20,600 | 610,600 |
| 2018 | <u>220,000</u> | <u>4,400</u> | <u>224,400</u> |
| Total | <u>\$1,920,000</u> | <u>\$133,237</u> | <u>\$2,053,237</u> |

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2014

(5) Long-Term Debt, (Continued)

2010A Refunding Revenue Bonds

In June 2010, the South Coast Water District Financing Authority issued \$17,485,000 of Refunding Revenue Bonds, Series 2010A. The 2010A Bonds were issued to provide funds (1) to currently refund certain outstanding obligations of the District including the 2003 Bonds, the 1998 Water Enterprise Certificates, the 1998 Wastewater Enterprise Certificates and the 1995 Bonds; (2) to acquire certain improvements for the 2010 Projects; and (3) to pay costs incurred in connection with the issuance of the 2010A Bonds. The 2010 Projects include: (1) the acquisition and construction of portions of the improvements to enlarge and stabilize the Beach Interceptor Sewer Tunnel, including the installation of a new pipeline, and the acquisition of entitlements in connection therewith; (2) the acquisition and construction of improvements to the District's Water System and Recycled Water System, including the District's share of improvements to Joint Regional Water Supply System facilities serving the District; (3) acquisition and construction of improvements for the expansion and upgrade of the Groundwater Recovery Facility; and (4) the acquisition and construction of improvements to the Wastewater System.

The 2010A Bonds include principal installments due in varying amounts from \$560,000 to \$1,375,000 annually through February 1, 2029 with interest ranging from 2.0% to 5%.

| | |
|---|---------------------|
| Principal outstanding at June 30, 2014 | \$14,980,000 |
| Plus unamortized premium | <u>486,243</u> |
| Net Bonds outstanding at June 30, 2014 | <u>\$15,466,243</u> |

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2014

(5) Long-Term Debt, (Continued)

2010A Refunding Revenue Bonds, (Continued)

The annual requirements to service the outstanding Bonds at June 30, 2014 are as follows:

| <u>Year Ending</u> <u>June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------------------------|---------------------|--------------------|---------------------|
| 2015 | \$ 700,000 | \$ 742,000 | \$ 1,442,000 |
| 2016 | 730,000 | 714,000 | 1,444,000 |
| 2017 | 765,000 | 677,500 | 1,442,500 |
| 2018 | 805,000 | 639,250 | 1,444,250 |
| 2019 | 845,000 | 599,000 | 1,444,000 |
| 2020-2024 | 4,890,000 | 2,318,500 | 7,208,500 |
| 2025-2029 | <u>6,245,000</u> | <u>1,335,250</u> | <u>7,580,250</u> |
| Total | <u>\$14,980,000</u> | <u>\$7,025,500</u> | <u>\$22,005,500</u> |

2010B Revenue Bonds (Build America Bonds)

In June 2010, the South Coast Water District Financing Authority issued \$19,350,000 of Revenue Bonds, Series 2010B. The 2010B Bonds were issued to provide funds (1) to acquire certain improvements for the 2010 Projects; and (2) to pay costs incurred in connection with the issuance of the 2010B Bonds. The 2010 Projects include: (1) the acquisition and construction of portions of the improvements to enlarge and stabilize the Beach Interceptor Sewer Tunnel, including the installation of a new pipeline, and the acquisition of entitlements in connection therewith; (2) the acquisition and construction of improvements to the District's Water System and Recycled Water System, including the District's share of improvements to Joint Regional Water Supply System facilities serving the District; (3) acquisition and construction of improvements for the expansion and upgrade of the Groundwater Recovery Facility; and (4) the acquisition and construction of improvements to the Wastewater System.

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2014

(5) Long-Term Debt, (Continued)

2010B Revenue Bonds (Build America Bonds), (Continued)

The 2010B Bonds include principal installments due in varying amounts from \$1,440,000 to \$2,115,000 annually from February 1, 2030 to February 1, 2040 with interest payable annually beginning February 1, 2011 at 6%.

These bonds are designated as “Build America Bonds” under the provision of Section 6431(f) and 54AA of the Internal Revenue Code of 1986. The District expects to receive on or before each interest payment date a direct cash subsidy payment from the United States Department of Treasury equal to 32% of the interest payable on the bonds so long as the bonds are outstanding. The net interest rate after consideration for the subsidy is 3.72%.

Total 2010B Bonds outstanding as of June 30, 2014, net of unamortized discount and deferred charges were as follows:

| | |
|---|---------------------|
| Principal outstanding at June 30, 2014 | \$19,350,000 |
| Less unamortized discount | <u>(560,118)</u> |
| Net Bonds outstanding at June 30, 2014 | <u>\$18,789,882</u> |

The annual requirements to service the outstanding Bonds at June 30, 2014 are as follows:

| Year Ending <u>June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------------------------|---------------------|---------------------|---------------------|
| 2015 | \$ - | \$ 1,161,000 | \$ 1,161,000 |
| 2016 | - | 1,161,000 | 1,161,000 |
| 2017 | - | 1,161,000 | 1,161,000 |
| 2018 | - | 1,161,000 | 1,161,000 |
| 2019 | - | 1,161,000 | 1,161,000 |
| 2020-2024 | - | 5,805,000 | 5,805,000 |
| 2025-2029 | - | 5,805,000 | 5,805,000 |
| 2030-2034 | 7,795,000 | 4,905,600 | 12,700,600 |
| 2035-2039 | 9,440,000 | 2,377,200 | 11,817,200 |
| 2040 | <u>2,115,000</u> | <u>126,900</u> | <u>2,241,900</u> |
| Total | <u>\$19,350,000</u> | <u>\$24,824,700</u> | <u>\$44,174,700</u> |

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2014

(5) Long-Term Debt, (Continued)

1998 Water Revenue Refunding Bonds

As a result of LAFCO resolution (RO 99-97), the District, for the Capistrano Beach Water Service Area, became responsible for its proportional share, 37.60%, of the Water Revenue Refunding Bonds Series 1998 in conjunction with the financing of construction and acquisition of a transmission pipeline from a new water supply source. The serial bonds bear interest at 4.10% to 5.00% and mature in various amounts through 2018. There are other water districts responsible for their proportional share of the 62.4% of the bonds. Payment of the principal and interest on the bonds is guaranteed by a municipal bond guaranty insurance policy. The required rate covenant is 115%. The required reserve for debt service was \$473,750. As of June 30, 2014, the reserve was \$465,754.

The annual requirements to service the outstanding bonds at June 30, 2014 are as follows:

| Year Ending <u>June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------------------------|--------------------|-------------------|--------------------|
| 2015 | \$ 390,000 | \$ 73,750 | \$ 463,750 |
| 2016 | 405,000 | 53,875 | 458,875 |
| 2017 | 430,000 | 33,000 | 463,000 |
| 2018 | <u>445,000</u> | <u>11,125</u> | <u>456,125</u> |
| Total | <u>\$1,670,000</u> | <u>\$ 171,750</u> | <u>\$1,841,750</u> |
| District's share (37.6%) | <u>\$627,920</u> | <u>\$64,578</u> | <u>\$692,498</u> |

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements (Continued)

For the Year Ended June 30, 2014

(6) Pledged Revenues

The District has pledged its revenues, net of specified operating expenses, to repay \$1.0 million in water revenue refunding bonds issued in 1998 and \$36.3 million in water revenue bonds issued in 2010. Proceeds from the bonds provided financing for the construction of various capital facilities of the District. The bonds are payable from District net revenues and are payable through 2040. Coverage of net revenues for annual principal and interest payments in future years are expected to approximate that of the current year (see below). Total future principal and interest remaining to be paid on the bonds is \$66,872,698.

Debt service paid for the current year and net revenues for the current year are as follows:

| | |
|--------------------------------------|--------------------|
| Gross Revenues | \$38,534,639 |
| Less excluded revenues | <u>(662,284)</u> |
| Includable revenues | <u>37,872,355</u> |
| All expenses | 32,277,218 |
| Less excludable expenses | <u>(7,908,915)</u> |
| Includable expenses | <u>24,368,303</u> |
| Net revenues | 13,504,052 |
| Debt service | 2,689,955 |
| Coverage percentage | 502% |
| Maximum required coverage percentage | 125% |

(7) Investment in Joint Venture

Pursuant to Orange County Local Agency Formation Commission Reorganization No. RO99-07, Tri-Cities Municipal Water District (TCMWD) was consolidated with Coastal Municipal Water District (CMWD) wherein CMWD became the legal successor-in-interest to TCMWD, and TCMWD ceased to exist effective March 31, 2000. In addition, CMWD transferred ownership of all miscellaneous assets and liabilities, not otherwise provided for by separate agreements, to be held by the District as trustee and transferred all other powers, rights and duties of TCMWD to be held by the District as trustee. The succeeding agency became Joint Regional Water Supply System (JRWSS).

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements (Continued)

For the Year Ended June 30, 2014

(7) Investment in Joint Venture, (Continued)

The agreement also provided for the District to act as a trustee for the remaining assets and liabilities not transferred under the direct ownership. There are nine members who participate in JRWSS, including the District.

The Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position reflect the activities of the Joint Regional Water Supply System (JRWSS) that are held in trust (with the South Coast Water District as trustee). The District's interest in joint venture assets is reflected on the statement of net position of the District as "investment in joint venture" in the amount of \$7,905,139 at June 30, 2014 as required under the equity method of accounting for investments.

(8) Defined Benefit Pension Plan (PERS)

Plan Description

The District contributes to the California Public Employees Retirement System (PERS), a cost sharing multiple-employer public employee defined benefit pension plan. PERS provides retirement, disability benefits, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. PERS issues a publicly available financial report that includes financial statements and required supplementary information for the cost sharing plans that are administered by PERS. Copies of PERS' annual financial report may be obtained from its executive office at 400 "P" Street, Sacramento, California 95814.

Funding Policy

Participants are required to contribute 7% of their annual covered salary. For employees hired prior to April 1, 2012, the District makes the contributions required of District employees on their behalf and for their account. For employees hired on or after April 1, 2012, the employee pays the entire 7% employee contribution. Effective January 1, 2013, new employees hired, who are new to the retirement system will be put into the 2%@62 retirement formula and are required to pay half the normal cost equal to 6.25%. Benefit provisions and all other requirements are established by state statute and contract with employee bargaining groups.

The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The current rate for employees hired prior to January 1, 2013 is 10.781% of covered payroll while the rate for employees hired on or after January 1, 2013 is 6.25%. The District's contributions to CalPERS for the years ended June 30, 2014, 2013 and 2012 were \$1,366,186, \$1,268,349 and \$1,089,766, respectively and were equal to the required contribution for the year.

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements (Continued)

For the Year Ended June 30, 2014

(9) Other Post-Employment Benefits

Plan Description

The District provides post-employment health care benefits with requirements depending on the employees initial employment date as follows: for employees of record as of May 18, 1988, five years of full-time continuous employment with the District is required. In addition, the employee must be at least 50 years of age and have participated in the PERS plan for at least 5 years as well as receiving service retirement benefits pursuant to the terms and conditions of the District PERS plan. The District provides medical insurance for the retired employee and employee's eligible spouse from the date of retirement until both become eligible to receive Medicare benefits. The obligation of the District is to provide the plan of insurance, and the specific terms and conditions may vary from time to time. The District pays the full premium cost of Medicare supplemental coverage.

For employees commencing employment subsequent to May 18, 1988, 20 years of full-time continuous employment is required. In addition, the employee must be at least 50 years of age and have participated in PERS as well as receiving service retirement benefits pursuant to PERS plan requirements. The District provides medical insurance for the retired employee from the date of retirement until the retired employee is eligible to receive Medicare benefits. The obligation of the District is to provide the plan of insurance, and the specific terms and conditions may vary from time to time. The Medicare supplement insurance is provided at the District's expense.

Funding Policy and Annual OPEB Cost

The contribution requirements of the District are established and may be amended annually by the Board of Directors. The District's annual other post employment benefit (OPEB) cost (expense) for the plan is calculated based on the *annual required contribution of the employer (ARC)*, 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 normal costs each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2014

(9) Other Post-Employment Benefits, (Continued)

Funding Policy and Annual OPEB Cost, (Continued)

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

| <u>Fiscal Year Ended</u> | <u>Annual OPEB Cost</u> | <u>Percentage Annual OPEB Cost Contributed</u> | <u>Net OPEB Obligation</u> |
|--------------------------|-------------------------|--|----------------------------|
| 06/30/12 | \$609,000 | 100.0% | \$0 |
| 06/30/13 | \$713,000 | 100.0% | \$0 |
| 06/30/14 | \$736,000 | 100.0% | \$0 |

Funding Status and Funding Progress

As of June 30, 2013, the most recent actuarial valuation date, the District's unfunded actuarial accrued liability for benefits at June 30, 2013 was \$4.8 million and the covered payroll (annual payroll of active employees covered by plan) was \$6.9 million, with a ratio of the UAAL to the covered payroll of 69.0%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial assets, consistent with the long-term perspective of the calculations.

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2014

(9) Other Post-Employment Benefits, (Continued)

Actuarial Methods and Assumptions, (Continued)

The actuarial cost method used for determining the benefit obligations is the Entry Age Normal Cost Method. The actuarial assumptions included a 7.25% investment rate of return, which is the assumed rate of the expected long-term investment returns on plan assets calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 9% initially, reduced by decrements of .5% per year to an ultimate rate of 5% after the seventh year. Both rates included a 3.0% inflation assumption. The UAAL is being amortized as a level percentage of projected payroll over 20 years. It is assumed the District's payroll will increase 3.25% per year.

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements (Continued)

For the Year Ended June 30, 2014

(10) Risk Management

The District is exposed to various risks of loss related to torts, theft, damage to and destructions of assets, errors and omissions, injuries to employees and natural disasters. In an effort to manage its risk exposure, the District is a member of the Association of California Water Agencies Joint Powers Insurance Authority (Authority).

The Authority is a risk-pooling self-insurance authority, created under provisions of California Government Code Section 6500 et seq. The purpose of the Authority is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage.

At June 30, 2014 as a member of the Authority, the District participated in the insurance programs as follows:

Property Loss - The District retains risk of loss of \$1,000 to \$50,000 depending on the property type (deductible amount); the Authority is self-insured up to \$100,000 and insurance coverage has been purchased to cover losses ranging from \$100,000 to \$100,000,000 limited to insurable loss.

General and Auto Liability - The District is insured up to \$60,000,000 per occurrence with no deductible; the Authority is self-insured up to \$2,000,000 and excess insurance coverage has been purchased to cover losses ranging from \$2,000,001 to \$60,000,000.

Public Official's Errors and Omissions - The District is insured up to \$60,000,000 per occurrence with no deductible; the Authority is self-insured up to \$2,000,000 and excess insurance coverage has been purchased to cover losses ranging from \$2,000,001 to \$60,000,000.

Underground Storage Tank Pollution Liability - The District is insured up to \$3,500,000 annual aggregate per incident with \$10,000 deductible per incident; the Authority is self-insured up to \$500,000 and excess insurance coverage has been purchased to cover losses ranging from \$500,000 to \$3,500,000.

Fidelity Coverage - The District is insured up to \$100,000 per occurrence with \$1,000 deductible for employee dishonesty, forgery or alteration, and computer fraud.

Workers' Compensation - The District is insured for statutory limits. The District is insured up to \$4,000,000 per accident and \$4,000,000 per disease; the Authority is self-insured up to \$2,000,000 and excess insurance coverage had been purchased.

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2014

(10) Risk Management, (Continued)

Roy Bradt Dam Failure Liability - The District is insured up to \$5,000,000 per occurrence with \$50,000 deductible.

There have been no settlements that have exceeded its insurance coverage for the past three years and there were no reductions in the District's insurance coverage during the years ended 2014, 2013 and 2012. 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 by not reported (IBNR). There were no IBNR claims payable as of June 30, 2014, 2013 and 2012.

(11) Contingencies and Commitments

Lawsuits - The District is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the District's management that resolution of these matters will not have a material adverse effect on the financial condition of the District.

Contract Commitments - The District had \$6,122,492 outstanding contract commitments at June 30, 2014. The five largest contracts outstanding include:

| <u>Project Description</u> | <u>Contract Amount</u> | <u>Balance to Complete</u> |
|--------------------------------------|------------------------|----------------------------|
| Dana Point Town Center, Phase 2 | \$3,962,290 | \$3,962,290 |
| Sewer Tunnel Rehabilitation | 3,452,039 | 1,014,222 |
| Advancement of Slant Well Technology | 251,480 | 202,644 |
| Boat Storage | 324,394 | 199,752 |
| Capistrano Beach Valve Replacement | 148,575 | 148,575 |

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2014

(12) JRWSS Note Receivable/Note Payable

1998 Water Revenue Refunding Bonds

In March, 1998, the \$6,005,000 principal amount of the 1998 Water Revenue Refunding Bonds for the former Tri-Cities Municipal Water District, now called the Joint Regional Water Supply System (JRWSS), were issued to refund the 1992 Certificates of Participation which were issued to finance the construction and acquisition of a transmission pipeline from a new water supply source. The serial bonds bear interest at 4.10% to 5.00% and mature in various amounts through 2018. Payment of the principal and interest on the bonds is guaranteed by a municipal bond guaranty insurance policy. The required rate covenant is 115%. Three participating agencies in JRWSS are responsible for the yearly principal and interest payments. The City of San Clemente participates with 54.4%, South Coast Water District, for the former Capistrano Beach Water District, participates with 37.6% and SONGS (SCE) participates with 8.0%. JRWSS carries both a note receivable and note payable in the financial records for the total principal amount due on the bonds. The City of San Clemente, South Coast Water District and SONGS are billed annually for their portion of the annual principal and interest payments. JRWSS makes the appropriate payments for the bonds after funds are received. JRWSS reduces the note receivable and note payable when the annual principal payment is made.

The annual requirements to service the outstanding bonds at June 30, 2014 are as follows:

| Year Ending <u>June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------------------------|---------------------|-------------------|--------------------|
| 2015 | \$ 390,000 | \$73,750 | \$ 463,750 |
| 2016 | 405,000 | 53,875 | 458,875 |
| 2017 | 430,000 | 33,000 | 463,000 |
| 2018 | <u>445,000</u> | <u>11,125</u> | <u>456,125</u> |
| Total | <u>\$ 1,670,000</u> | <u>\$ 171,750</u> | <u>\$1,841,750</u> |

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2014

(13) JRWSS Capital Assets

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

| | <u>Balance at June 30, 2013</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance at June 30, 2014</u> |
|---|-------------------------------------|------------------|--------------------|-------------------------------------|
| Capital assets, nondepreciable: | | | | |
| Land and land rights | \$ 838,406 | \$ - | \$ - | \$ 838,406 |
| Construction in progress | <u>6,622,164</u> | <u>530,745</u> | <u>(675,024)</u> | <u>6,477,885</u> |
| Total capital assets, nondepreciable | <u>7,460,570</u> | <u>530,745</u> | <u>(675,024)</u> | <u>7,316,291</u> |
| Capital assets, depreciable: | | | | |
| Intangible plant | 2,481,746 | - | - | 2,481,746 |
| Source of supply | 7,471,292 | - | - | 7,471,292 |
| Transmission and distribution | 28,025,969 | 595,660 | - | 28,621,629 |
| General plant | <u>636,832</u> | <u>79,364</u> | <u>-</u> | <u>716,196</u> |
| Total capital assets, depreciable | <u>38,615,839</u> | <u>675,024</u> | <u>-</u> | <u>39,290,863</u> |
| Less accumulated depreciation for: | | | | |
| Intangible plant | 1,116,787 | 62,042 | - | 1,178,829 |
| Source of supply | 6,115,588 | 158,369 | - | 6,273,957 |
| Transmission and distribution | 10,616,203 | 740,101 | - | 11,356,304 |
| General plant | <u>418,911</u> | <u>55,717</u> | <u>-</u> | <u>474,628</u> |
| Total accumulated depreciation | <u>18,267,489</u> | <u>1,016,229</u> | <u>-</u> | <u>19,283,718</u> |
| Total capital assets, depreciable, net | <u>20,348,350</u> | <u>(341,205)</u> | <u>-</u> | <u>20,007,145</u> |
| Capital assets, net | <u>\$27,808,920</u> | <u>\$189,540</u> | <u>(\$675,024)</u> | <u>\$27,323,436</u> |

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2014

(14) Operating Leases

As of June 30, 2014, the District has operating leases with various companies to rent space on District occupied property. The operating leases are on a month-to-month basis with the District receiving monthly lease payments totaling \$77,936.

REQUIRED SUPPLEMENTARY INFORMATION
OTHER POST-EMPLOYMENT BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS

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SOUTH COAST WATER DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2014

**OTHER POST-EMPLOYMENT BENEFIT PLAN
 SCHEDULE OF FUNDING PROGRESS**

| Actuarial Valuation Date | Actuarial Value of Assets (AVA) | Actuarial Accrued Liability Entry Age (B) | Unfunded Actuarial Accrued Liability (UAAL) (B-A) | Funded Ratio (A/B) | Annual Covered Payroll (C) | UAAL as a Percentage of Covered Payroll [(B-A)/C] |
|--------------------------------|--|--|--|--------------------------|-------------------------------------|--|
| 6/30/10 | \$ 684,000 | \$ 5,860,000 | \$ 5,176,000 | 11.67% | \$ 6,622,000 | 78.2 % |
| 6/30/11 | 1,148,000 | 6,820,000 | 5,672,000 | 16.83% | 6,679,000 | 84.9 % |
| 6/30/13 | 2,304,000 | 7,068,000 | 4,764,000 | 32.60% | 6,896,000 | 69.1 % |

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SUPPLEMENTARY INFORMATION
(UNAUDITED)

SOUTH COAST WATER DISTRICT
 Joint Regional Water Supply System
 General Expenses Allocation by Facilities - JRWSS
 For the Year Ended June 30, 2014

| | General Allocation <u>Factor #1</u> | JTM Allocation <u>Factor #1</u> | Bradt Reservoir Allocation <u>Factor #11</u> | WIP Line Allocation <u>Factor #10</u> |
|---|---|---------------------------------------|---|---|
| Operating expenses: | | | | |
| Labor, benefits and related costs | \$ 228,663 | \$ 110,741 | \$ 102,680 | \$ 79,245 |
| Materials, repairs and contractors | 75,413 | 29,420 | 104,666 | 38,110 |
| Utilities | 9,125 | 5,608 | 36,473 | 3,144 |
| Water testing | 2,549 | 16,539 | 12,922 | 15,412 |
| Engineering | 569 | 4,857 | 7,905 | 113 |
| Total operating expenses | <u>316,319</u> | <u>167,165</u> | <u>264,646</u> | <u>136,024</u> |
| General and administrative expenses: | | | | |
| Labor, benefits and related costs | 209,428 | 930 | 50 | 50 |
| Office supplies and maintenance | 6,092 | - | 488 | - |
| Utilities | 12,359 | - | - | - |
| Insurance | 30,333 | - | - | - |
| Professional fees | 80,991 | 119 | 207 | - |
| Regulatory fees | 5,698 | 197 | 21,256 | - |
| Dues and subscriptions | 3,533 | - | - | - |
| Total general and administrative expenses | <u>348,434</u> | <u>1,246</u> | <u>22,001</u> | <u>50</u> |
| Total general expenses | <u>\$ 664,753</u> | <u>\$ 168,411</u> | <u>\$ 286,647</u> | <u>\$ 136,074</u> |

| LTM Line Allocation <u>Factor #9</u> | Schlegel Allocation <u>Factor #12</u> | San Onofre Feeder Allocation <u>Factor #13</u> | <u>Total</u> |
|--|---|---|---------------------|
| \$ 55,529 | \$ 47,689 | \$ 29,945 | \$ 654,492 |
| 11,667 | 37,055 | 4,124 | 300,455 |
| 15,265 | 3,891 | - | 73,506 |
| 7,436 | 12,852 | 14,012 | 81,722 |
| 4,977 | - | - | 18,421 |
| <u>94,874</u> | <u>101,487</u> | <u>48,081</u> | <u>1,128,596</u> |
| - | - | 50 | 210,508 |
| - | - | - | 6,580 |
| - | - | - | 12,359 |
| - | - | - | 30,333 |
| - | 180 | - | 81,497 |
| - | - | - | 27,151 |
| - | - | - | 3,533 |
| <u>-</u> | <u>180</u> | <u>50</u> | <u>371,961</u> |
| <u>\$ 94,874</u> | <u>\$ 101,667</u> | <u>\$ 48,131</u> | <u>\$ 1,500,557</u> |

SOUTH COAST WATER DISTRICT
 Joint Regional Water Supply System
 General Expenses Allocated by Participants - JRWSS
 For the Year Ended June 30, 2014

| <u>Participant</u> | General Allocation <u>Factor #1</u> | JTM Allocation <u>Factor #1</u> | Bradt Reservoir Allocation <u>Factor #11</u> |
|----------------------------------|---|---------------------------------------|---|
| Irvine Ranch Water District | \$ 6,515 | \$ 1,650 | \$ - |
| El Toro Water District | 2,593 | 657 | - |
| Moulton Niguel Water District | 286,708 | 72,636 | 14,046 |
| Capistrano Valley Water District | 66,542 | 16,858 | 3,038 |
| SCWD (CBWD Service Area) | 81,964 | 20,765 | 75,016 |
| City of San Clemente | 190,984 | 48,384 | 172,418 |
| Camp Pendleton | 2,593 | 657 | 1,920 |
| State Parks | 997 | 253 | 774 |
| SCE (SONGS) | <u>25,857</u> | <u>6,551</u> | <u>19,435</u> |
| Total | <u><u>\$ 664,753</u></u> | <u><u>\$ 168,411</u></u> | <u><u>\$ 286,647</u></u> |

| <u>WIP Line Allocation Factor #10</u> | <u>LTM Line Allocation Factor #9</u> | <u>Schlegel Allocation Factor #12</u> | <u>San Onofre Feeder Allocation Factor #13</u> | <u>Total</u> |
|---|--|---|--|---------------------|
| \$ - | \$ - | \$ - | \$ - | \$ 8,165 |
| - | - | - | - | 3,250 |
| - | - | - | - | 373,390 |
| - | - | - | - | 86,438 |
| 85,046 | - | - | - | 262,791 |
| 51,028 | 82,199 | 59,302 | - | 604,315 |
| - | 1,110 | - | 4,221 | 10,501 |
| - | 446 | - | 1,689 | 4,159 |
| - | 11,119 | 42,365 | 42,221 | 147,548 |
| <u>\$ 136,074</u> | <u>\$ 94,874</u> | <u>\$ 101,667</u> | <u>\$ 48,131</u> | <u>\$ 1,500,557</u> |

SOUTH COAST WATER DISTRICT
 Joint Regional Water Supply System
 Budget Allocation Factors by Participant - JRWSS
 For the Year Ended June 30, 2014

| <u>Participant</u> | Allocation | Allocation | Allocation | Allocation | Allocation | Allocation | Allocation | Allocation |
|---------------------------------|-----------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | Factor <u>1</u> | Factor <u>2</u> | Factor <u>3</u> | Factor <u>4</u> | Factor <u>5</u> | Factor <u>6</u> | Factor <u>7</u> | Factor <u>8</u> |
| | System <u>Wide</u> | Unit 1 <u>Reach 1</u> | Unit 1 <u>Reach 2</u> | Unit 2 <u>Reach 3</u> | Unit 2 <u>Reach 4</u> | Unit 3 <u>Reach 5</u> | Unit 3 <u>Reach 6</u> | Unit 3 <u>Reach 7</u> |
| Irvine Ranch Water District | 0.98% | 5.66% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| El Toro Water District | 0.39% | 2.26% | 2.40% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Moulton Niguel Water District | 43.13% | 48.64% | 51.56% | 62.50% | 53.57% | 40.61% | 17.61% | 0.00% |
| Capistrano Valley Water Distric | 10.01% | 16.97% | 17.98% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| South Coast Water District | 12.33% | 7.17% | 7.60% | 10.16% | 12.58% | 16.09% | 22.32% | 27.09% |
| City of San Clemente | 28.73% | 16.72% | 17.72% | 23.69% | 29.33% | 37.51% | 52.04% | 63.16% |
| Camp Pendleton | 0.39% | 0.23% | 0.24% | 0.32% | 0.39% | 0.51% | 0.71% | 0.86% |
| State Parks | 0.15% | 0.09% | 0.10% | 0.13% | 0.16% | 0.20% | 0.28% | 0.34% |
| SCE (SONGS) | <u>3.89%</u> | <u>2.26%</u> | <u>2.40%</u> | <u>3.20%</u> | <u>3.97%</u> | <u>5.08%</u> | <u>7.04%</u> | <u>8.55%</u> |
| | <u>100.00%</u> | <u>100.00%</u> | <u>100.00%</u> | <u>100.00%</u> | <u>100.00%</u> | <u>100.00%</u> | <u>100.00%</u> | <u>100.00%</u> |

| Allocation Factor <u>9</u> | Allocation Factor <u>10</u> | Allocation Factor <u>11</u> | Allocation Factor <u>12</u> | Allocation Factor <u>13</u> | Allocation Factor <u>14</u> | Allocation Factor <u>15</u> |
|----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|---|-----------------------------------|--|
| Local <u>Trans Main</u> | Water <u>Import Pipe</u> | Bradt <u>Reservoir</u> | Schlegel <u>Reservoir</u> | SCWD Pass-through O&M <u>SONGS PPL</u> | Debt Service <u>COP's</u> | Master Plan Facilities Replacement <u>Reserve</u> |
| 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| 0.00% | 0.00% | 4.90% | 0.00% | 0.00% | 0.00% | 0.00% |
| 0.00% | 0.00% | 1.06% | 0.00% | 0.00% | 0.00% | 0.00% |
| 0.00% | 62.50% | 26.17% | 0.00% | 0.00% | 37.60% | 27.09% |
| 86.64% | 37.50% | 60.15% | 58.33% | 0.00% | 54.40% | 63.16% |
| 1.17% | 0.00% | 0.67% | 0.00% | 8.77% | 0.00% | 0.86% |
| 0.47% | 0.00% | 0.27% | 0.00% | 3.51% | 0.00% | 0.34% |
| <u>11.72%</u> | <u>0.00%</u> | <u>6.78%</u> | <u>41.67%</u> | <u>87.72%</u> | <u>8.00%</u> | <u>8.55%</u> |
| <u>100.00%</u> | <u>100.00%</u> | <u>100.00%</u> | <u>100.00%</u> | <u>100.00%</u> | <u>100.00%</u> | <u>100.00%</u> |

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